



# STRATEGIES FOR ECONOMIC GROWTH— THE GREATER HOUSTON REGION

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Y 4. B 22/1:103-117

Strategies for Economic Growth the... **RING**  
BEFORE THE  
SUBCOMMITTEE ON  
ECONOMIC GROWTH AND CREDIT FORMATION  
OF THE  
COMMITTEE ON BANKING, FINANCE AND  
URBAN AFFAIRS  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED THIRD CONGRESS  
SECOND SESSION

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FEBRUARY 19, 1994

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Printed for the use of the Committee on Banking, Finance and Urban Affairs

**Serial No. 103-117**



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SATURDAY, FEBRUARY 19, 1994

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON ECONOMIC GROWTH AND  
CREDIT FORMATION,  
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 9:15 a.m., in Rhinehart Music Auditorium, Texas Southern University, Cleburne and Ennis Streets, Houston, TX, Hon. Paul E. Kanjorski [chairman of the subcommittee] presiding.

Present: Chairman Kanjorski.

Also present: Representatives Waters and Washington.

Chairman KANJORSKI. The subcommittee will come to order. The Subcommittee on Economic Growth and Credit Formation, Banking Committee of the House of Representatives, is here in Greater Houston today to address the strategies for economic growth.

Today, the House Subcommittee on Economic Growth and Credit Formation holds the seventh in a series of field hearings on credit availability and economic growth. Today's hearing is the first that we have held in Texas, and I would like to thank my colleague, Congressman Craig Washington, for inviting us to Houston. I want to thank the people of the Houston area for their warm hospitality.

And, in addition, I would like to welcome my distinguished colleague on the Banking Committee, Representative Maxine Waters from California's 29th Congressional District. I know we appreciate her participation today and her interest in addressing the economic needs of Houston and the Greater Houston area. I also want to welcome Representative Waters' distinguished husband, who is newly named Ambassador to The Bahamas for the Clinton Presidency. We had a chance to drive down in the car, and it is an honor to be with him.

As most of you know, the 1992 election brought major change to Washington, both in the legislative and executive branches of the government. Representatives Washington and Waters, first elected in 1989 and 1990, respectively, were in many ways the advance party of the freshman class. Both Congressman Washington and Congresswoman Waters came to the Nation's Capital with extensive experience in the State legislature and the problems of our Nation's cities. They came determined to stand up and be counted and make a difference in the lives of the people that they represent.

They are not afraid to speak out. As a matter of fact, my first encounter with both Congressman Washington and Congress-

woman Waters led me to believe that I had missed major training in my life. I did not have the benefit of having served in the State legislature. As I said to Maxine this morning, now I know why she is so successful.

And Craig, I consider one of my personal friends in the House. His ability to deal and work bills through—and amendments through—in the House of Representatives always has amazed me, and now I know why. That prior training in the State has certainly gone a long way.

It is this spirit and tenacity which I admire in both of my friends. While our districts may appear on the surface to be very different, a close inspection reveals that each has been a victim of serious economic hardships which must be addressed. I share with Craig a strong belief that government has the ability and a moral obligation to promote economic growth so that working men and women can find jobs which pay them enough to find food, clothing, and shelter for their families and, most important, opportunity.

Congressman Washington's ability to secure \$45 million in grants and loan guarantees for the city of Houston and Harris County is strong evidence of his commitment to economic growth and job opportunity. So, too, his success in securing an amendment to the Job Training Partnership Act, which allowed Harris County and the city of Houston to better coordinate their job training and educational assistance to Houston's young adults, disabled, and unemployed.

At the national level, Congressman Washington has demonstrated creativity and persuasiveness in successfully advocating the adoption of legislation which promotes economic growth in disadvantaged communities like much of Houston. Congressman Washington was a leader, for example, in last year's successful effort to expand the Earned Income Tax Credit to benefit the working poor.

As an influential member of the powerful Energy and Commerce Committee, he fought successfully for the passage of legislation to allow women and minorities to compete on a level playing field with large companies in the development of the information superhighway. This will enable women, minorities, and other disadvantaged groups to be at the cutting edge of the emerging new technologies.

For years, we have heard that American workers must train themselves to be more competitive in the international marketplace. This is true, but few people have fully grasped the concept that training is not enough. There must be jobs for workers once they are retrained. This is a reality which Congressman Washington and Congresswoman Waters and I understand, and that is why we come to Houston today, to hear directly from men and women on the frontlines of how the Federal Government can help areas like this create new jobs and new businesses.

Our witnesses today cover a broad spectrum of Federal, State, local, business leaders and bankers and academics. They will tell us which government programs have worked, which ones have not, how existing programs can be improved, and how we can create new programs that will effectively meet the needs of the Greater Houston area. The advice we receive today will help us advise our

colleagues in the Congress on the steps we can take to expand credit availability for economic growth and job creation.

Without objection, our witnesses' prepared statements will be submitted in full for the record of the hearing; and I will now recognize Congressman Washington for his opening statement.

Mr. WASHINGTON. Thank you, Mr. Chairman. Let me first thank both Chairman Kanjorski and Congresswoman Waters, my dear colleagues in the Congress, for their kindness and interest and their concern about economic growth, both throughout our Nation and more specifically for our task today here in Houston, Texas. Their efforts on behalf of small, medium, and large businesses have not gone unnoticed throughout the country, by Members of Congress and by citizens at large.

I thank Congresswoman Waters and Congressman Kanjorski for taking time out of their hectic, busy schedules in their own districts to travel here to Houston so that we could put on this hearing this morning, so that we can interchange ideas with the view that when we leave here, we will have new and positive strategies to use the resources that are available from the Federal Government in a positive way here in Houston, Texas.

Later next week, the Congress will meet about crime, health care, and welfare reform. As you know, I am a strong advocate of front-end spending, which means spending on programs and strategies that cost money in the beginning, but actually save money on the back end.

Most, if not all, of our solutions to crime, health care, homelessness, poverty, and the like all begin with one word, and the chairman has already said it: Jobs. At the end of reform of the welfare system, there must be a job. At the end of the criminal justice system, there must be a job. And at the end of health care, there must be a job.

More jobs enable more people to become self-sufficient and independent, less likely to engage in antisocial behavior and to contribute positively to our Nation. As Congressman Kanjorski stated with NAFTA's passage, we must demonstrate to the working men and women across the Nation that we are committed to creating a significant number of jobs.

All three members here voted against the NAFTA. We fear the loss of American jobs to other countries. We know that the American worker can compete with any worker in the world if there is a level playing field, but we are here to say that we will do all that we can to help businesses stay in the United States and employ people at fair wages and help people who want work get work.

The other way that this is going to be possible is if the Federal Government, State governments, and private industry work together. We have had programs that worked in the past. We need to find out what these are and how they can work to help our economy.

And we agree upon and are ready to move forward with new, innovative, and aggressive plans, strategies, and ideas for our Nation.

Chairman Kanjorski has been working on this front with legislation, the Business, Commercial and Community Development Secondary Market Act for many years. Congresswoman Waters has

had her economic development package that she has pushed forward. I have been doing all I can to ensure that the Partnership Job Training Act, the President's budget, telecommunications, and others include as many advantages for State and county governments and small businesses as humanly possible.

However, today we are here to listen to the experts in the field, to view Houston as a microcosm of the Southwest region of our Nation and to get some answers to better guide the Congress toward a solution that will provide jobs, employment, and careers for all of our people.

I thank once again Chairman Kanjorski and Congresswoman Waters for accepting my invitation to have this most important and vital hearing here in the 18th Congressional District of Texas; and I welcome the opportunity to hear the testimony that we will receive today.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Washington can be found in the appendix.]

Chairman KANJORSKI. Thank you very much.

And now Congresswoman Waters.

Ms. WATERS. Thank you very much, Mr. Chairman.

Chairman Kanjorski, Congressman Washington, it is a privilege to be in Houston for this hearing today. I am especially pleased to be here with Chairman Kanjorski, who has distinguished himself as a leader on the Banking Committee in the area of economic growth and development; and with Congressman Washington who, too, has distinguished himself as a leader in the area of JPTA and as a leader on other economic development issues and certainly on issues of justice and equality.

And I am also delighted to be in Houston because it is the hometown of my husband, and he is forever telling me how great it is; and I have a chance to be in Greater Houston one more time.

The subject of this hearing is a most important issue facing hundreds of communities across America. Economic development is the only long-term solution to stop the crime, hopelessness, and anger which seethe in our inner cities and poor and rural communities. Yet, obstacles continue to inhibit our communities' abilities to empower themselves economically.

Banks, unfortunately, too many are still redlining. Recent data indicate that African-American and Latino customers are more than twice as likely to be turned down for a mortgage than others. Low-income whites are more likely to receive a loan, oftentimes, than high-income blacks, according to information from the Federal Reserve Board. This poor record applies to consumers, small business, and commercial loans as well. In short, redlining makes it difficult for entrepreneurs to obtain the insurance they need to run businesses.

While the private sector sometimes has failed us, the government has to take some responsibility as well. Federal Government cutbacks during the 1980's and early 1990's disproportionately affected the cities. Job training, housing assistance, community development funds, and education were all cut drastically during the last 12 years or so. According to one study, over \$231 billion in aid to cities was cut in the 1980's from both social programs, designed

to improve the lives of city residents, and economic development efforts.

The outright abandonment of some of our communities has been well documented. However, we are pleased that working with Members of Congress, such as Craig Washington and Chairman Kanjorski, along with our new President, we have some welcome changes to that atmosphere of hostility that many public officials oftentimes demonstrated to represented cities and who have sometimes caused problems in the past 12 years. We now at least have a chance to begin to turn things around.

I would like to just mention a couple of programs which I think can be of help, that Congressman Washington and Chairman Kanjorski have been involved in. I would like to bring to light two programs which I think have great potential to invigorate economic development activities.

In this period of scarce resources, there are only a few new resources of funding which can help breathe economic life into poor communities. This year, the Department of Labor will begin a new stipend-based job training program called Youth Fair Chance. This will target 17- to 30-year-olds in some of the poorer sections of America, and it resulted from a hard fight that was fought; and the battle was led not only by myself but Congressman Washington, along with the Congressional Black Caucus.

What has resulted is a \$50-million-a-year program designed to mainstream young people who have dropped off America's agenda. Youth Fair Chance will enlist people in apprenticeship training, GED courses, and other job training programs. If the participants remain in the program, they will receive a modest stipend to help pay for living expenses.

The *Federal Register* listed the request for proposal for Youth Fair Chance just December 22, 1993. Every large city in America with a substantial population is eligible. The deadline for application is March 22. That is sometime next month.

The second program is the Section 108 Loan Guarantee Program. And I am very pleased that there are representatives from the city here today, because this is an underutilized program that I think Congressman Washington and I and Congressman Kanjorski have breathed some new life into and increased the funding possibilities. We now have \$2 billion that is in the Section 108 Program. It is an offshoot of the Community Development Block Grant. And, again, Congressmen Kanjorski and Washington were instrumental in increasing the funding for this program from a mere \$150 million up to \$2 billion per year. Any CDBG recipient, that is, any city or town in America, can qualify for a Section 108 loan. These loans from the Department of Housing and Urban Development are low-interest rate and can be paid back over 20 years, a long period of time. So you can target this low-interest-rate money and really not have to worry about it, because you have got such a long period of time to pay it back. No collateral is required.

The money can then be used immediately for commercial development projects, housing rehabilitation, and other community and economic development programs.

We are about to receive some money in Los Angeles, and it is going to be a major source for economic development, and I think

that you would be well served to work with Congressman Washington to begin to utilize these section 108 funds.

With that, let me just say, I am delighted to be here, and I look forward to the testimony today.

[The prepared statement of Ms. Maxine Waters can be found in the appendix.]

Chairman KANJORSKI. Thank you.

Now, what we will do is have all the witnesses' prepared statements submitted in the record, without objection. And I would ask each witness, as we go down the line, to synthesize in 5 minutes your statements so that we may have an interplay when you are done.

And if I may, I will introduce the Honorable Chester Straub, Deputy Assistant Secretary for Programs of the Economic Development Administration of the U.S. Department of Commerce.

**STATEMENT OF HON. CHESTER STRAUB, DEPUTY ASSISTANT SECRETARY FOR PROGRAM SUPPORT, ECONOMIC DEVELOPMENT ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE**

Mr. STRAUB. Chairman Kanjorski, Congressman Washington, Congresswoman Waters, other distinguished witnesses, and ladies and gentlemen, thank you for the opportunity to appear before the Subcommittee on Economic Growth and Credit Formation today as we focus on the programs of the Economic Development Administration and the evolving role of the agencies as we move toward the 21st century.

The role of EDA, as outlined in the administration's fiscal year 1995 budget and reauthorization request, represents a commitment on the part of the administration and the Department of Commerce to revitalize and retool EDA to meet traditional economic challenges, while also focusing on expanded authorities that will provide the agency with an opportunity to further assist our Nation's distressed communities. In addition, the administration's new program on empowerment zones and enterprise communities, or EZ/ECs, will afford EDA an opportunity to be a partner with other Federal agencies in a coordinated strategy to assist communities nationwide.

The EZ/EC Program is one many believe will emerge among the administration's notable achievements in Reinventing Government. This will tap the resources of distressed communities so that we can, in the President's words, "repair the American community and restore the American family."

EDA currently provides grants for public works and development facilities, planning and coordination, and other financial assistance that will help reduce substantial and persistent unemployment in economically distressed areas. EDA programs will continue to provide our economically distressed areas with the opportunities they need to move into the 21st century.

The administration's 1995 budget request includes an increase in budget authority of \$50 million for economic development guaranteed loans, which will allow EDA to guarantee \$269 million in loans. American companies need to be a part of the growing export market, and jobs created as a result should be made available to distressed areas. EDA will provide planning and technical assist-

ance, assistance to intermediaries and other nonprofits, to facilitate business development and expansion; and loan guarantees, which will help leverage limited Federal dollars through a Federal guarantee with local, State, and nonprofit organizations which have other reserves which can be used to facilitate business activity and development in distressed areas.

The fiscal 1995 budget also includes \$32.6 million in salaries and expenses, which will allow for streamlining of the grants administration, increase the budget program and evaluation efforts of the Agency, and upgrade the management information systems, as well as the Office of Economic Conversion Information.

It will also include \$187 million in broad-based, multipurpose economic assistance; \$140 million for defense economic investment, a \$60 million increase in the fiscal year 1994 budget to assist communities to begin planning following the announcement of procurement cutbacks, closing of Department of Energy defense-related laboratories, or completion of the base closure decisions, and to implement base reuse plans.

Closely aligned with the budget request is the reauthorization of EDA. Over the last 12 years, the Agency has been the target of elimination. As a result, the Public Works and Economic Development Act [PWEDA] of 1965 has not been amended significantly since 1981. In addition, the grant application system has become cumbersome, time consuming, and difficult for our customers.

The legislative package delivered to Congress includes a number of technical changes and an administration request to reauthorize EDA through fiscal year 1995. This will provide the administration with an opportunity to work with the Congress during that fiscal year to revitalize and retool EDA as an economic answer for the future.

Among the elements of that package are included provisions allowing for the consolidation and coordination of program authorities under a limited number of titles, which will allow for a simplified and strengthened delivery of EDA's programs and increased emphasis on programs which support local and State programs; a recognition that economically distressed areas require special attention and programs of sustained and targeted aid to private investment; and will result in a more customer-oriented focus for EDA by eliminating some cumbersome requirements.

As you are aware, the EZ/EC Program is designed to empower people and communities across the Nation by promoting community, business, and Federal Government partnerships to create jobs and opportunities. Nine economic zones and ninety-five enterprise communities will be designated by the Federal Government. Communities will have to apply by preparing creative strategic plans for revitalization, as well as meet certain poverty and distress criteria. Key principles that will guide the application and selection process include economic opportunity, sustainable community development, community-based partnerships, and strategic vision for change.

In September 1993, President Clinton signed a memorandum establishing the President's Community Enterprise Board, chaired by the Vice President. The Cabinet-level board is responsible for overseeing and encouraging new initiatives in community

empowerment. The Board has been directed to encourage innovations by local governments to find ways to reduce red tape and Federal regulations.

The Department of Commerce is a member of the President's Enterprise Board.

EDA is analyzing its programs to determine how several initiatives might be applicable to overall strategies for the EZ/EC Program. Under our traditional programs, EDA might serve rural and distressed areas specifically in the areas of deferred maintenance and infrastructure. EDA could launch demonstrations that would be a blend of public- and private-sector resources in support of capacity building and business development. EDA is in a position to assist communities by leveraging strategic plans beyond this program. EDA promotes long-term economic initiatives and, as an agency, has specialized expertise in providing public works, technical, economic adjustment, planning, and trade adjustment assistance to the communities.

Strategic planning has been and continues to be an integral part of the EDA Program. For example, the first grant approved for the State of Florida as a result of Hurricane Andrew was a strategic planning grant. In the Midwest floods, EDA has ensured that communities focus first on long-term economic recovery strategies.

Special attention needs to be given to the economic development needs of those communities not selected under the EZ/EC Program, those threshold communities that will need long-term guidance and assistance to assure that they can compete in the 21st century.

Rural priorities consistent with the appropriate levels of need haven't been examined especially within the 400 contiguous counties in the Deep South. These communities need leadership and expertise to package local needs and infrastructure to effectively compete and complete the EZ/EC process. Special populations in Texas, the Mississippi Delta, rural Appalachia, and the rural Southwest, Northwest, and Northeast are of special concern.

While urban areas represent a significant share of the EZ/EC designations, special designations are not the key to economic competitiveness. EDA has a long track record of involvement with distressed communities. EDA has been there in situations of economic distress, whether it be the result of natural disasters, such as earthquakes in California, or defense conversion. As a Federal agency, EDA is unique because it has a complement of economic development representatives that work in partnership with local units of government, nonprofits and planning and development districts. EDA has to offer its extensive network of university centers to bring academia and the private sector to the table as partners.

EDA can do more, beyond assisting selected areas develop sustainable growth through selected programs. EDA could target resources to business startups that can expand high-quality, competitive employment, especially in the high-technology arena.

Mr. Chairman, in closing, we have a unique opportunity to change the economic fiber of distressed communities nationwide. EDA, through its full range of programs, can provide our communities with the guidance they need to ensure that our Nation can compete in global markets. We are a flexible agency, and we are

working diligently to make the Agency one of the most reliable, customer-oriented Federal entities.

Thank you, Mr. Chairman.

And thank you, Congressman Washington, for inviting us to Houston.

[The prepared statement of Mr. Chester Straub can be found in the appendix.]

Chairman KANJORSKI. Thank you.

Sitting next to Mr. Straub is Mr. Henry Troell—he is the Regional Director of the Dallas Office of the Economic Development Administration. And I understand that he will not be a witness, but we have sitting next to him. And sitting next to him is Mr. Till Phillips, the Acting Regional Administrator of Region VI of the Small Business Administration.

#### **STATEMENT OF G. TILL PHILLIPS, ACTING DIRECTOR, REGION VI, SMALL BUSINESS ADMINISTRATION**

Mr. PHILLIPS. I am honored to be here, Mr. Chairman, to be able to testify amongst this distinguished group. I am real pleased to have the Honorable Maxine Waters present with us and, of course, our own Honorable Craig Washington from the 18th District. We were very well known by Mr. Craig Washington because he has sponsored so many activities in this area to bring about economic growth and development.

I am honored to be able to tell you of some of the accomplishments and some of the plans that we have for the future. As you know, SBA has a district office here in Houston, Texas. We are proud of this office, so proud that when I flew in this morning somebody on the plane said, "Who are you with?" And in Texas that means, "Who do you work for?"

So we began to say that usually, in a lot of places—my background is in cattle raising, and I say, "I raise cattle." But today I was proud to say that I worked for the Small Business Administration. I am proud of the Houston office and what they have accomplished, particularly in the last 2 years.

I am not here just to brag. I am a Texan, but I am going to tell you a little more about our programs than that.

I want to thank the Honorable Chester Straub for helping me get my talk together. I dropped it on the floor, and he helped me get all my cards together.

It is good being with you all. And let me tell you about what is happening in the SBA and particularly in the Houston district office. I do have a presentation that is written and has been submitted to the subcommittee.

First of all, the counties covered by this district are under the direction of Mr. Milt Wilson, who is our District Director. He was an outstanding director in region VI this last year, with a lot of accomplishments, and a lot of the credit goes to that staff that he has. They cover 32 counties and service 5 million people. And a lot of that is small business. It has a significant impact on the economy of the Houston area, particularly in job creation.

And I was glad to hear Congresswoman Waters mention that a while ago. That is important. Jobs, jobs, jobs.

First of all, this office has made a number one penetration in the Nation. There are 68 district offices in SBA. It is number one in penetration. What does that mean? If you will take the number of businesses that are in this district and how many of those loans have been guaranteed to, that puts us number one in this district.

So, again, congratulations go to this office. It is an outstanding accomplishment, first due to the staff but also its diverse resources—utilizing the resources that are available, not just the staff only. Many of them are at the table with us today, and I feel like I am amongst friends, because they have all helped to accomplish these objectives that we set out for the year.

First of all, we have in place an electronic loan application process, the first in the Nation. That means that a small bank, or any bank or any lending institution, may submit a loan electronically to this office and have it processed. We have done it. It used to take, Mr. Chairman, approximately several days, 1½ days to process a loan; now we can do it within 1 hour. That tells you the high volume that is being created by this.

We are proud, because it is number one in the Nation in making loans to the African-American community, to small businesses. We are number one, and we are proud of that; and Craig knows this, and he has helped us in that, too.

We are number three in the Asian small businesses in the Nation. And we are not number three in population of Asians, if you will check that. That is another good accomplishment. And we are number six in the Hispanic. So we feel good when we say, in the underrepresented or the minority community, the penetration is even greater there than it has been in some of the areas. That credit goes to the district. They are doing a fine job.

Four years ago we did 320 guaranteed loans out of this district office with a staff much greater than it is today. This last year it was 718 going out, which we equate to 15,000 jobs, over \$192 million in guarantees; this is with our partners in the banks. I might say that there are 120 banks in this district that provide us that partnerships that we need to make small business successful in Houston.

One thing that we do with banks that I think is outstanding, we built that partnership to the degree—and the Congressman has helped us—we brought in banks that we never had before. We do a quality circle meeting—we try to do these monthly; we had 95, and that is more than once a month over the last 3 years.

What does that equate to? That equates to what percent of our loans are current? What percent are current? Ninety-one percent of all the loans that we have guaranteed are not past 60 days past due. So that is better than Mastercharge or Visa or Sears.

We have a low documentation loan, and I will have to give some credit to a lot of people about this one. It started with the Governor, Ann Richards, who asked that we put together a service for small businesses that could not obtain small loans. Most banks do not want to make the small business loans. Yet, two-thirds of all the businesses in America go into business on \$10,000 or less. So we know the need is there.

Particularly, in the minority and women-owned business, they can do it on that smaller loan. In fact, Congresswoman Waters

brought up earlier that a number of them are not receiving loans in comparison to those who should. It takes a while. It took quite a bit of time, but we had a meeting in Dallas with all the State directors from the State of Texas. We recognized that it could be done, but we couldn't bring anything into focus. The idea went up and Administrator Bowles loved the idea. And now Houston leads in the five-State area—and this is the only place that it is in effect in America—leads, and 105 of those loans have been made; and 45 percent of those are going to women- and minority-owned businesses. That is filling that niche that we have not been able to attract before.

Now, most of those loans—it is \$100,000 or below—but most of those are running below \$50,000, and it is a one-page application. If you can fill out a credit card application, you can fill that one out. It is just that simple. We fax it to one of our district offices. They process it and get the answer back the same day. That is why the volume is high.

We will probably see this going nationwide. Right now, it is a pilot program in this region only. And it is really paying off. And we can see right now we are going to be the leading region again. This last year we were the leading region in the number of loans, and this one is skyrocketing. And the Administrator is going to take it to the other regions very soon, I am sure.

I want to talk about another program that we did something different here in the State, thanks again to the Governor, Ann Richards. She had us together with the Department of Commerce; and you will hear more about this in a minute. We set up a certified development company that makes long-term lending for fixed assets—land, building, and some equipment. We have some certified development companies that we are also working with. They work with the bank; you go up to a loan of about \$1 million.

The certified development company puts the package together. They are exposed to 40 percent of the loan, the bank at 50 percent, and the borrower at 10 percent. If I was paying it back, I would pay the bank first and the CDC next, and it brings down your interest probably lower than you can find anyplace else, and that will go up to 20 to 25 years on some of those loans.

We do have—again thanks to our Congressman, Craig Washington—a certified development company in the Greater Galveston area that services Houston. And we also have the State. And that is why I mentioned the Governor put one into the Department of Commerce, and that covered the entire State. So if there is not an area that is covered by the certified development company, the State can do it.

It is paying off. We have just got \$7 million made this last year in the Houston area out of that one program, creating about 150 jobs. Again, the new director there at the Texas Department of Commerce, Deborah Crofton, I talked to her the day before yesterday. She wants to accelerate that.

Outreach—that is what I am talking about, outreach, and particularly in our minority loans. As I said, again, of all the loans we have been making, 35 percent—I had 45 percent on a particular program—but putting all of our loan programs together, it is running 35 percent in the Houston area. That is number one in the

Nation, and it is going to be greater, you will see next year, Congressman. That is going to be accelerated.

We have another program for minorities. You hear it referred to as 8(a). It is for socially and economically disadvantaged small businesses. It is for government contracts and giving assistance in the development of a firm. Right now, there are 134 firms here in the Houston area; and again, that equates to about \$36 million in contracts going out, creating 1,000 jobs this last year. That one again is going to be accelerated. We are shooting for 1,000 loans this year, in 1994, out of the Houston office.

Another thing is a procurement breakfast. We all like to eat down here, and so any time we have a breakfast, we go. We have the State, the city, the county, the bankers; we all go to that. We implement it and set it up, and then we have the minority contractors to come and the women-owned contractors. There they do this networking, they do some of that, and they get acquainted, and they get some business out of this; and last year \$75 million went out. That is one of the highest in our region.

Milton came up with a program. He and the Governor got together, and in fact the lady to my left, Ms. Winsome is the lady who spearheaded it. It is call the TEXCAL, and the Department of Commerce and the State of Texas and SBA joined hands. We are the only district in our region that has this right now. That is for short-term credit for underutilized businesses. And if you get a credit from the State of Texas to do some work for them, and you may not have the financing, that is where we will come in; and we have a bank—I won't list the banks, but there are some banks here in Houston that will come in there with us and make that loan to them. And it is a quick—not a lot of money, but it is enough to get that contract. You have to meet those financial qualifications.

We are also working with HUD. I don't see her today, but you did mention about the housing. Another one with Milt Wilson here; it is a pioneering effort with 8(a) firms, people that live in low-income housing areas, sponsored by HUD, to be able to pay rent and live there. Some of them have skills. They can paint or do carpentry work or yard work, but they are not employed. We are asking our 8(a) contractors to use them as a subcontractor, and if they don't know how to do something, we will give some on-the-job training. That began to get under way, and we will see more and more of that.

It is a creative thing only in our region. I think it has a lot of potential. And it is going to be able to keep those people in this housing and develop a skill and get a business going.

Resources. We have been bragging a lot about SBA, but we could not do it without the banks or the certified development companies, or without SCORE [Service Corps of Retired Executives]. Men and women, 126, that are retired; they give their time to assist these small businesses here in Houston. Again, I am talking about number one in the Nation last year; President Clinton gave the award to Houston. They went forward to Washington to get the plaque for the number one SCORE chapter in America—126 people; they give a lot of help.

They have set up an advisory council in our district and they obtained a lot of financing from the banks and the private sector to

put in a Business Information Center, BIC, B-I-C. And with BIC, it is state of the art. You will find there we have all of the—I won't give you all alphabetical soup for the ROMs that we have there, but it is up to the state of the art for a small business. If you go in, they will pull this out and show you the business plan, and the analysis and the spreadsheet that you need to go get a loan from Mr. Tolbert. It assists that way.

And then SCORE is in there and they are going to ride side-saddle with that. I shouldn't say that, but you can tell where I am from. They are going to help you obtain a loan, and they will work you through that if you have any questions about it.

That is a real asset, and this was number two in the Nation. There are five in the United States; this is number two, and it was put together by the private sector for the banks, putting a lot of money in on it.

I would like for you to see that sometime. We are real pleased with that.

I was in Mexico here a while back, and they are sending people up to see the center. So it has universal applications. The University of Houston, we work closely with in the small business development centers and that is nationwide. There are 700 in the Nation. This one is outstanding in the fact that it covers 15 centers.

Also we put in money, about \$1,384,000 last year. The State comes in with a match, and they put more than we do into it. It is a pretty progressive-type organization, and it is showing a lot of results.

We need to get the minority community to use it more. That is one of our objectives, and that is what I said a while ago. We have to get them to go into those centers and use them.

The SBI [Small Business Institute], we have eight schools in this district. They will take seniors, graduate students, we will assign them a case and give the school \$500 and assign them a case. We will contract for \$500. They will work it for a semester and obtain hands-on experience, and at the end of the semester, they give a presentation to the small business owner. We hope to have more this year.

There is another thing that is different down here, and it is helping. It is the Center for Women Business Enterprise. I believe that is the name they have given it; it is training and counseling for women. They counseled 743 last year. They had 47 startups with women-owned business, and 73 that were already in business expanded. What does this equate to? It created 120 new jobs, saved 87 jobs, and I am going to give the city credit, and the State.

They had 47 to start doing business and credit contracting with them for the State and the city of Houston. We made \$1.4 million in loans which averaged about \$50,000 a loan.

There are two organizations that work very closely with this district office, talking about resources. One of them is here today, the Greater Houston Small Business Economic Foundation, Inc.. They do more short-term loans. They assist in that. For the long term, MESBIC, they are there for the minority and the women. It is active here in Houston.

I would like to say in conclusion—I probably went over by 1½ minutes. Of course, we talk slower here. You ought to give us more

time. But it is an honor to be able to meet you and have you all come to Houston, Texas. You are always welcome back, and if we can help your subcommittee any way, you can count on us.

[The prepared statement of Mr. G. Till Phillips can be found in the appendix.]

Chairman KANJORSKI. Thank you. That is an impressive list. I hope that my staff takes that down so that I can take it back to my congressional district.

We will now hear from Ms. Winsome Jean, Director of Defense Conversion, the Texas Department of Commerce.

**STATEMENT OF WINSOME JEAN, DIRECTOR OF DEFENSE CONVERSION, TEXAS DEPARTMENT OF COMMERCE**

Ms. JEAN. Good morning to the Honorable Members of Congress, and the various public and private sector representatives participating in today's hearing, and to the general public. I would like to thank Congressman Washington for inviting the Texas Department of Commerce to participate in today's hearing before the Economic Growth and Credit Formation Subcommittee of the U.S. House of Representatives Committee on Banking, Finance and Urban Affairs.

My name is Winsome Jean, and I am the director of economic transition for the Texas Department of Commerce. I am here today to provide the subcommittee with testimony on what changes Federal agencies can make to meet the economic growth and credit formation needs of small businesses, especially here in Houston and in Texas.

Throughout my 15-year tenure in banking and public finance, I have had the privilege to work with a number of Federal agencies that provide financial services to small businesses. Generally, these agencies do a good job and are committed to the mission. But the bureaucratic nature of most government offices at all levels of government hampers progress. Streamlining of redundant rules and excessive paperwork is necessary.

As you have heard from the previous speaker, we are lucky in Texas to have an excellent working relationship with the Small Business Administration. And I would like to commend them for the implementation of the Low-documentation Loan Program being piloted here in the State. I think it stands as an example that other agencies should follow in the future.

What it does is that it encourages banks to increase their SBA loan portfolio because a change in documentation makes it less costly to book an SBA loan. The bottom line is, more jobs are being created because more small businesses are receiving loans.

The Texas Department of Commerce functions as the lead economic development agency for the State of Texas. Its general mission, as mandated by State law, is to retain and expand the State's existing business and industrial base while marketing Texas nationally and internationally as an ideal spot for locating or expanding a company. To match economic development goals with work force goals, the agency is also mandated to administer federally funded job training programs on a statewide basis. Commerce fosters partnerships with public and private sector entities throughout the State to accomplish this mission.

Gone are the days when cattle and cotton were king. Today Texas' industrial base is as diverse as its population. The State's economic strength no longer depends on one booming business but on its ability to compete in a global marketplace. Due to its economic and demographic diversity, Houston is uniquely positioned to reap enormous benefits from this global expansion. At the request of Governor Ann W. Richards, the Texas Department of Commerce recently led a statewide effort in cooperation with the State regional councils to develop a regional prosperity plan for each of the State's 10 economic regions. The goal is to have a strategic economic development plan for each region by the end of spring 1994. The plans will assist public and private agencies in determining regional priorities to create jobs and economic prosperity for the whole State.

On January 19 and 20, the Houston-Galveston Area Council of Governments coordinated a regional prosperity planning workshop at its Houston office. One hundred individuals from the public and private sector gave input on the trends that affect economic development goals and on the priorities of the gulf coast region. I would like to share some of those results that are related to the subject matter of today's meeting.

Lack of private-sector financing and governmental control and intervention were seen as two of the key detriments to economic development. The group rated NAFTA a strong trend to diversification which is continuing, and the strengthening of aqua-agriculture as clear opportunities for the Houston area.

The workshop participants outlined the eight goals to achieve economic prosperity. One of them was development of an overall condition, whereas small businesses throughout the region have access to capital and technical assistance with special opportunities for ethnic minorities, women-owned businesses, and access to procurement contracts.

Lack of capital for small business, is it a myth or is it real? It depends who you talk to. One of my first missions when moving to the Governor's office under the new administration of Governor Richards was to form a public/private committee to address the capital access problem for small business here in Texas.

My background before moving to State government was in banking. I was an investment officer and internal auditor for Capital Bank in Houston, which was part of the Mercantile Holding Co., which merged with the Bank of the Southwest to be M Bank, which was eventually purchased by Bank One. So I am keenly aware of the metamorphosis that the banks in Texas have gone through in the last decade. Luckily, we are past all of that now and are in recovery, but banks are still gun shy.

In 1991, the committee to which I referred generated a survey to local economic development entities on the whole area of capital formation. The survey results pointed to a lack of access to capital for small business, especially in the area of venture capital and startup capital. The committee also found that banks were awash with liquidity, but due to the understandable reluctance of bankers to assume all the risk on loans to small- and medium-sized businesses, the committee thought it essential that the public sector work with the private sector to bridge the financing gap. Unfortu-

nately, even when banks make loans to small business, they don't always match the maturity needs of small business owners.

Banks are risk-minimizers and shorter maturities reduce various types of risks, such as credit risk, collateral risk, maturity risk, and interest rate risk. In addition, short-term loans are more profitable because banks can generate more income due to the frequency of rollovers. Regulations act as a disincentive for banks making the types of loans that small businesses really need. Since a significant portion of bank deposits are on demand, banks are criticized by bank regulators if the maturities of their sources of funds, in the form of deposits, and their uses of funds, in the form of loans, are not properly matched.

This poses problems for the average small business. Not only is there insufficient access to capital, but when there is access, it is not always efficient. Acquisitions and upgrading of plants and equipment require long-term working capital. We need to put significant energy into reviewing ways to stimulate private-sector investment so that more long-term capital is available to small businesses. Incentives such as tax relief for the investor should be seriously considered.

Due to my 8-year experience as the chief investment officer for the Texas State treasurer, Ann Richards, I know that the Federal Government has a highly liquid debt-issuance program. State and local governments buy billions and billions and billions of Federal debt instruments for their investment portfolios. Because of the Federal Government's easy access to capital markets, a Federal debt securities program could be designed to meet the long-term working capital needs of small businesses.

Currently, the Texas Department of Commerce operates a number of programs for small business. I would like to describe two of the more recently created programs.

The State of Texas Historically Underutilized Business and Small Business Linked Deposit Program is utilized when the State treasury places deposits that earn below market rates in banks that grant loans under the program. As you have already heard, we recently worked with the Small Business Administration here in Houston to create TEXCAL. TEXCAL was designed to promote the utilization of State contract assignments to qualified small and/or historically underutilized businesses, and we are piloting that here in the Houston area and we hope to expand it for the whole State at a later date.

These are the kinds of public-private partnerships that should be encouraged by the Federal Government. Federal agencies such as the Small Business Administration and the Economic Development Administration should be given more flexibility to customize finance programs on a pilot basis that cater to the particular situations of the local environment. If the pilot is successful, then the program, with further authorization, could be expanded.

For example, if all parties agree—and market studies strongly suggest that aqua-agriculture, as I discussed earlier, is an emerging market in the Houston area—then Federal agencies should be able to work with local and State officials and the private sector to tailor financing programs for targeted markets.

The EDA Loan Revolving Fund for defense companies recently created in St. Louis, Missouri, I think is a good example of tailoring to local needs; however, I want to point out that EDA should review its fixed asset loan standards since working capital loans are in more demand by small businesses.

In Texas, and especially Houston, I can speak to two key areas where finance assistance for small business is needed: Defense conversion and trade finance. Dependency on defense contracts is not as apparent in Houston as it is in other parts of the State, such as Fort Worth and Dallas, but according to a 1992 report by the Governor's Task Force on Economic Transition, nearly 10 percent of the 4,000 defense subcontractors in Texas, as identified by the State's top primary defense contractors, are located in Harris County.

For small defense companies seeking to move into commercial markets, the financing dilemma is even more severe. There seems to be a reluctance on the part of many bankers to provide capital to these companies because of the perceptions that they are in dwindling markets. Small defense companies are especially vulnerable because they survive from the progress payments received from the Department of Defense. There are no progress payments in the commercial market.

I agree with the research of BENS [Business Executives for National Security] which recommends the creation of a fund for defense conversion to enhance the availability of working capital for small- and medium-sized defense firms. Although there are negative consequences to downsizing, ultimately, defense transition must be viewed in terms of opportunities it presents to retool the manufacturing base of the State and of the Nation.

If you think about it, these companies have built the best products in the world, products that must perform under extreme circumstances with pinpoint accuracy. They have what it takes to build the best commercial products in the world, but they can't do it without capital.

There is a strong correlation between successful technology commercialization and the availability of venture capital. Hopefully, the BENS fund concept will address the need for both working capital loans and venture capital loans because both are necessary in a successful technology and business transition from defense production to commercial production.

A second priority area is in trade finance. Since 1987, Texas exports to Mexico have increased by 124 percent, and this is before NAFTA. This represents literally hundreds of thousands of new jobs created or retained in the State.

The U.S. Export-Import Bank's average working capital loan is in the neighborhood of \$1.8 million. This high average suggests that agency is not making a considerable amount of loans to smaller businesses. The SBA is not as aggressive as it should and could be in financing export transactions. This leaves a serious gap for the average small business that needs capital to export. It is imperative that the Federal Government take a serious look at this deficiency if we are to be competitive in the global marketplace. Both agencies should work together to service the export finance needs of small business.

In general, the EDA could also be more aggressive in the area of grant—of utilizing their grant authority to promote programs that provide for the technical assistance, training, and marketing of small business exporters. This will work in sync with the SBA and other agencies who can provide the financing, and EDA and others can provide the technical assistance and marketing support that these companies need.

The Texas Department of Commerce is excited about the opportunities NAFTA brings to the State. We see especially wonderful opportunities for small business expansion if they are prepared. To assist them with this global expansion, Commerce is working with local organizations, such as the Small Business Development Center and others, to sponsor a "Doing Business in Mexico" seminar for Historically Underutilized Businesses on this same college campus in the School of Technology on March 19. It will provide HUBs with the opportunity to receive valuable information on the steps involved in trading with Mexico and where you can get this information locally.

Information will also be provided on what products and services are hot in Mexico, and on matchmaking services available to small business. Based on the interest, the seminar will be followed by a trade mission to Mexico for HUBs.

Other areas of need are in venture and startup capital and microloans. The Southwest does have venture capital availability, which is the envy of other areas of the country, but with the demise of oil and gas and real estate speculation, the volume has decreased considerably.

The Houston SBA district, as you have already heard, has an outstanding record for providing services to the small business, but they don't have a microloan program as do other districts. I suggest that a microloan program be implemented in the Houston district. Due to the number of small businesses here and the excellent track record of the Houston district, I am sure it will quickly become one of the SBA's most successful microloan programs.

In summary, the State of Texas, including Houston, is in a transition, a transition from a one-industry-dependent State to a diversified industrial base with a highly skilled and diversified labor force and the ability to compete in a global marketplace. Federal agencies can help in this transition by working in partnership with the private sector and the public sector to take steps that provide our small businesses with access to capital with the ultimate bottom line of creating and retaining jobs.

The key priority areas, in my estimation, are in trade finance and defense conversion. Venture capital and microlending are also worthy of honorable mention. With less bureaucracy and more flexibility, catering to the special needs of our local areas, Federal agencies can play a key role in providing for the economic prosperity of Houston, the State of Texas, and the Nation.

It has been my pleasure to address the honorable members of this subcommittee.

[The prepared statement of Ms. Winsome Jean can be found in the appendix.]

Chairman KANJORSKI. Thank you very much, Ms. Jean.

We will now hear from Mr. Bruce Austin, director of Harris County Community Development Agency.

### **STATEMENT OF BRUCE AUSTIN, DIRECTOR, HARRIS COUNTY COMMUNITY DEVELOPMENT AGENCY**

**Mr. AUSTIN.** Thank you, Mr. Chairman, Congresswoman Maxine Waters, and Congressman Craig Washington. On behalf of the commissioners, courts, and the citizens of Harris County, we thank you for taking time from your schedule to address the issues of economic development in our community. I would especially like to thank Congressman Washington for his continued support of economic development in this region.

The Harris County Community Development Agency, through the Corporation of Economic Development of Harris County, fosters the creation and expansion of small business and industry in Harris County. The corporation's primary service is the administration of a small business revolving loan program; the program grants loans to small businesses that would otherwise not qualify under the normal underwriting procedures of financial institutions.

We have instituted not only traditional loan programs but also a domestic loan program and a newly developed international loan program that we hope to nexus in a hand-in-glove relationship with our operations in the Caribbean Basin, and I know also with NAFTA, and also in those interests in other foreign countries.

The Greater Houston area has the opportunity to lead the Nation in accomplishing the real objective of economic development; and that is to enhance job creation, wealth creation, and increase the tax base. The government can and should take some responsibility for stimulating, promoting, and encouraging the positive economic growth of communities.

The government benefits from such efforts because economically secure people tend to be more productive. Productive work forces enhance successful economic growth. There is less crime in productive neighborhoods. The need for governmental solutions for problems lessens in productive communities. Communities of low income are not automatically places where there are people without respect for each other or lack of people who pass down positive self-esteem and values to their children; yet crime and other social dysfunctional behavior do exist, and the outcome can infect a community to the point of deterioration.

Ultimately, we believe—and I am not going to read all of my comments—I have written them—we believe that the fundamental issue is that if we are going to increase the GDP, we have to look at it realistically. If it is made up of consumption, that means people who are working both in corporations and individual incomes and a part of that is domestic private savings, export duties, and government spending. We have to realize that unless you provide jobs for individuals, those persons are not going to contribute to the consumptive base. Therefore, you are going to have less government spending because we are going to have less tax base; and in addition to that, you are not going to have a lot of domestic savings.

The corollary there is less domestic savings, less money banks have on hand to spend. Therefore, the need is to increase jobs, be-

cause with jobs and economic development and businesses around these distressed communities, all of us will prosper. Thank you very much.

[The prepared statement of Mr. Austin can be found in the appendix.]

Chairman KANJORSKI. Thank you very much, Mr. Austin.

Next we will hear from Marlon Mitchell, the executive director of the Houston Small Business Development Corp.

**STATEMENT OF MARLON D. MITCHELL, EXECUTIVE DIRECTOR, HOUSTON SMALL BUSINESS DEVELOPMENT CORP.**

Mr. MITCHELL. Thank you, Mr. Chairman. To the Honorable Members of Congress, Maxine Waters and Craig Washington, I would like to thank you all for inviting us here today to participate in the subcommittee hearing on economic growth and credit formation.

My name is Marlon Mitchell, and I am director of the Houston Small Business Development Corp. We are a nonprofit corporation established by the city of Houston Housing and Community Development Department. We are funded by CDBG grant dollars.

The Housing and Community Development Department, as you know, receives—the city of Houston's Housing and Community Development Department receives approximately \$30 million each year. That is money that is disbursed throughout many departments and programs.

One of the major concerns of the department's director is that of small business development, community development, economic development. Many of the social economic ills; crime, drug addiction, teenage pregnancy, and unemployment that plague our Nation's inner-city communities stem directly from the lack of economic development vehicles and resources that provide citizens of such communities with meaningful opportunities for employment, education, and involvement.

In 1986, the city capitalized the program, the Houston Small Business Community Development Corp., to combat community deterioration. That was our group. We are a nonprofit. Our primary mission is to stimulate growth and economic development in areas that have been targeted by the city of Houston. Those are areas that have over 51 percent low-income residents residing there.

Our primary vehicle is that of a small business revolving loan fund. We make loans anywhere from \$15,000 up to \$200,000. We are not to compete with the private sector. We are here to leverage private-sector dollars. We believe in public/private partnerships and we need to nourish that.

We provide management and technical assistance where we put on workshops and training sessions geared toward low-income communities. We provide loan package services and business planning services counseling for those who are disadvantaged.

I believe, if you look at the problems that confront small businesses today, it deals primarily with access to capital. Historically, banks have not gone into inner-city communities and provided financing. Those businesses have not been able to get the type of management assistance that they need. What we are trying to do is provide access to capital by building public/private partnerships.

We provide inducements to banks like NationsBank and TCB and others throughout Texas that can then come into those communities and work with us to try to create growth.

Access to capital is one problem, but then also if you ask most small businesses what is the major problem they are confronted with, they will say, access to capital. But equally important is management and technical assistance. Not many of them will readily admit that. They might be one heck of a craftsman and they can fix an automobile, or they are one heck of a plumber or electrician, but when it comes to managing the business side of their business, many just do not understand it.

We try to elevate the business acumen of those small business owners so that they can expand and grow and create jobs.

Third, we have what we call the small business incubator. We provide the space for small businesses that can't go to an executive suite and lease 1,000 feet and pay whatever the going rate of rent is at that particular entity. What we try to do is provide affordable space for small businesses, and then the resources—support resources that go along with that.

The incubation concept of taking a baby and putting it in the incubator until it is ready to live on its own, we do the same thing for small businesses: Secretarial services; word processing; access to conference rooms. We provide a variety of services that this business will be able to use and then grow and prosper. If a small business needs to have a copying machine, a fax machine, those services that they wouldn't be able to readily go out and access as a startup business, we provide that for them.

The Small Business Development Corp., unfortunately is limited in that it has access to only CDBG funds at this time. It is our hope that we can work with—as I said, the private sector, work with other government programs, in order to enhance our efforts in what we are trying to do.

The effectiveness of programs that have been proposed—for example, the Green Line Program of the SBA, low-documentation programs all of which are wonderful and great—is going to be gauged by the impact that it has on the communities that we are serving, the low-income communities and the minority communities that have historically been left out of the mainstream of economic prosperity. In order for those programs to be effective, we believe that we need to remove some of the cumbersome compliance requirements that go along with those programs.

If you look at SBA size criteria, I believe it goes up to \$40 million in sales for a company, net worth of \$6 million in sales profit before taxes of \$2 million in sales, while in Houston, the average sales for a black business or Hispanic business is approximately \$30,000 a year. We need to focus our resources on those businesses where the need is.

We work closely with the SBA. In fact, just right around the corner, probably less than 1 mile from here, we participated with the SBA's 504 Program; and also NationsBank is doing a large project that resulted in over 300 jobs being created. Those are the types of participations that we need to continue to do. And also look at developing new products and services.

I would like to go over just a few things that Ms. Bingham has outlined in her written testimony relative to the SBA. Houston is the fourth largest city in the Nation, but yet we are unable to establish a microloan program.

We look at the large majority of the applications that come to the Houston Small Business Development Corp.; they are for small businesses, people who are trying to start businesses. We, unfortunately, can't help them because of the policies and procedures that we have to adhere to according to HUD.

We feel that there is a desperate need in Houston for such a program. We have three microloan programs in the State—I believe in Dallas, San Antonio, and Waco. I would urge the subcommittee to give consideration to establishing a microloan program here.

Management and technical assistance grants to community development corporations and nonprofit corporations are needed to increase the business acumen and knowledge of small businesses and also to stimulate our youth. If we can actually train our youth in terms of entrepreneurial skills and get them involved at an early age—we tell our kids, you need to go to college and get a 4-year degree, and that is wonderful; but over the next decade, the majority of jobs that are going to be created won't be requiring a 4-year degree, but will require a technical skill. So we need training programs in addition to steering them in the direction of entrepreneurship.

Under the Housing and Urban Development Department current regulations governing economic development projects, there are job creation and monitoring requirements that are stifling. Some economic development activities that promote entrepreneurship and enhance management skills will not immediately nor directly result in job creation, but are, nonetheless, an integral part of stimulating growth. Such activities should not require job creation compliance.

In addition, business owners and employees are subjected to job creation compliance measures that are often too cumbersome. As a result, participation in CDBG-funded economic development programs is hampered.

When the nature of a business is such that low-income jobs are readily identifiable—for example, a stocker or a waitress or a bus-boy—it doesn't make sense to burden that owner or that employee with onerous job creation monitoring requirements. Such requirements should be reduced, if not eliminated.

Also grant allocations for capacity-building to nonprofit corporations engaged in community development should be used to stimulate growth from within disadvantaged communities.

With respect to Community Reinvestment Act reform and community development institutions, commercial lending institutions' historical ambivalence toward disadvantaged and minority communities has propelled the proliferation of new lending institutions, check cashers, and pawnshops, that have come into the inner cities and charged exorbitant interest rates to the people that can least afford to pay.

We need to find new services in the private sector to discourage that and to try to include people, rather than turn them away, saying that your risk is too high for us to get involved with. We need to embrace them and say, let's develop some new services that take

into consideration the extenuating circumstances of these communities.

CRA reform must address performance rather than public relations. To put on workshops, to put on seminars and sponsor banquets is great, but what people need is access to credit. They need to be able to go to get a business loan or a car loan; they don't need banquets.

I would encourage the banking community to look at new products and services. And certainly banks are doing that. I think it is important that banks come into the inner-city communities and establish shops. NationsBank has done that here; TCB has done it; other large major bank holding corporations are going into inner-city neighborhoods. But if the policies and procedures remain the same, those banks are nothing but brick and mortar. We need banks that are going to come in and develop policies and procedures that mirror the communities that they serve.

Banks should be given incentives to work with community development organizations. I think under the Community Development Institutions Act that we are trying to empower the communities and the people within the communities so that they can support and build and develop. We need to be able to have public-private partnerships where banks are given incentives to invest in corporations like the Corporation of Economic Development of Harris County, or the MESBICs that currently exist.

In closing, I would say that we need to look more closely at building strong public-private partnerships that will result in job creation, the removal of slum and blight, and economic growth in our disadvantaged communities.

[The prepared statement of Mr. Mitchell can be found in the appendix.]

Chairman KANJORSKI. Thank you.

We will next hear from Mr. Jeff Taebel, manager of the Community and Environmental Planning Department of the Houston-Galveston Area Council.

#### **STATEMENT OF JEFF TAEBEL, MANAGER, COMMUNITY AND ENVIRONMENTAL PLANNING DEPARTMENT**

Mr. TAEBEL. Thank you, Chairman Kanjorski, Congressman Washington and Congresswoman Waters. We appreciate the opportunity to be here with you. I am Jeff Taebel, and I am the manager of Community and Environmental Planning for the Houston-Galveston Area Council, or HGAC, which we prefer you call it rather than H-GAC, which some have called us.

HGAC is a voluntary association of 150 local governments along the upper Texas gulf coast. These local governments comprise almost 4 million people and really range from major urban areas like Houston, Harris County, older cities such as Galveston, as well as rural areas and a lot of agricultural interests.

We have been involved in economic development programs really since our inception in 1966; and during the 1980's, we assumed responsibility for the regional service delivery of some of the programs of the Economic Development Administration and the Small Business Administration.

HGAC staffs and provides funding support for the Gulf Coast Economic Development District, which was designated by EDA in 1988. It prepares an annual overall economic development program which maintains the eligibility for our cities and counties for EDA planning grants, public works programs, technical assistance grants, and EDA's financing programs as well.

HGAC also operates the Gulf Coast Small Business Finance Corp., which is an SBA-certified development company, which Mr. Phillips spoke to earlier on, and that administers the 504 Loan Program, a fixed assets program which gives very favorable loan terms to small businesses and is primarily focused on job creation and job retention.

Before I get into my recommendations, I want to publicly commend and thank Henry Troell, the Regional Director of the Austin office of EDA; Mr. Phillips; and Mr. Milton Wilson, the Director of the Houston district of SBA for their ongoing commitment to our economic development efforts, the organizations that we run and to building regional partnerships for economic development in general.

I would like to also point out that in addition to programs of EDA and SBA, we have tried to coordinate closely with the Department of Commerce, as Ms. Jean mentioned, the regional prosperity plan. And we have worked to propose the TEXCAL Program. We have been active with Mr. Austin and Mr. Mitchell's programs. We have done combination loans with our 504 Programs and each of their revolving loan funds.

I think the philosophy of our efforts has been to primarily coordinate, reduce duplication and leverage public resources wherever we can.

I really echo a lot of the points made by everyone today, and I don't want to take up a lot more of the subcommittee's time by stating them. I am going to make some specific recommendations in three areas of programs that we work with.

First of all, I would like to say that the Gulf Coast Economic Development District which we have been involved with for the last 5 years has been interested in a program of EDA's called the Revolving Loan Fund. Working capital is a credit issue that we have discovered in our economic development planning efforts. I think that this can do working capital loans and makes it very flexible, and it would be a nice way to supplement the 504 and some of the community development loan programs that are out there.

I think particularly appropriate for the RLF, as it is called, is the fact that economic development districts can tailor loan criteria to specifically meet the credit needs that some have uncovered in their economic planning work, and I think it is the type of flexibility that Ms. Jean pointed out as what is needed in credit and financing.

One of the things I would like to recommend that EDA continue to look at, however, is the matching funds requirements for this program. Right now, it is very difficult for us to convince either private lenders or local governments to put up cash in hand to match this fund, especially for a region as large as ours. We cover about 13,000 square miles. A small town out on the west side has trouble seeing why they are getting economic development by putting

matching funds in a program that may not do any loans within 80 miles them.

We would like to be able to document commitments of match for the loans once they are made. That way, local banks and local governments could provide matching funds for loans in their areas that would provide jobs in their communities or in their immediate surroundings.

My second set of recommendations is really that SBA just continue its efforts to streamline both in paperwork reduction and in customer service outlook. I think one of the things that we hear a lot about in the lending community is that they are shying away from public programs in general. Well, they take more time and more paperwork. I think, in large part due to the efforts of Mr. Phillips and Mr. Wilson, these things are no longer accurate, but there is still a perception that exists. And I think a continued commitment to customer service being the best it can be will greatly benefit good programs that are already in place, such as the 504.

I would like to say as a certified development company that it is incumbent on us as well. Putting customer service as our top priority would greatly streamline programs and make them more popular in the lending community.

The final thing that I would like to leave you with is to continue using regional councils as your resource. I think that EDA and SBA have long recognized this type of partnership. Economic development is a regional issue, really. Very few job-creation issues, quality-of-life issues, end at municipal boundaries. A Statewide focus is too big, especially in a State like Texas where we have diverse microregions. I think that regional councils provide a good vehicle to serve as a clearinghouse and a forum where issues of the day can be discussed by citizens and the private sector, and we would like to offer our continued services to both the Federal agencies represented here and to all the rest of you to help promote economic development in this region.

Thank you very much.

[The prepared statement of Mr. Taebel can be found in the appendix.]

Chairman KANJORSKI. Thank you very much.

Next we will hear from Dr. Thomas DeGregori, Texas Southern University.

Mr. DEGREGORI. Thank you, sir. University of Houston.

Chairman KANJORKSI. I am sorry, University of Houston.

Mr. DEGREGORI. That is all right. They are both great institutions. It is my pleasure to be here.

Though I have been at the University of Houston for 27 years, my experience in economic development and growth has been primarily in Africa, Asia, and the Caribbean where I have worked in over 40 countries, and I would like to bring a perspective on the issues in Houston from what we have learned in these other countries.

I find it ironic that since World War II, the U.S. Government has spent hundreds of billions of dollars in economic development in helping countries overseas, and they have, in this process, done an enormous amount of good and learned a lot. And what is ironic is that very little of this knowledge has come back to be utilized with-

in the United States; and it is doubly ironic in that the utilization of this knowledge in the United States would in no way detract from the very considerable benefit that we are doing overseas and we can continue to do overseas.

If I may give one example, before I turn to the issue that has come up here three times, that of microloans, the U.S. Government spent millions of dollars doing research on diarrheal conditions and dehydration and ways of addressing that. Over a decade ago, they came up with a method of using small packets of salt, sugar, and electrolytes that cost pennies that can rehydrate children and keep them from dying.

Until the past years, they were virtually unavailable in the United States, although in the last 10 years they have saved millions of children's lives and they are saving 2 million children a year. Yet, in the United States if a child has diarrhea, they are likely to be put in the hospital and supported intravenously, which is far more expensive and less effective.

I would like to draw attention to microenterprises, where the United States has played a leading role in learning how to be effective, and often that has been at the mandate of the U.S. Congress. And the U.S. Congress earmarked \$75 million to be spent exclusively on microenterprises and microenterprise loans. Over the years, the U.S. Agency for International Development has sponsored numerous studies of how they can be used effectively, and I have a small sample of them here.

What are microenterprise lending and microloans, as was talked about—Ms. Jean was talking about over here? They are loans to people who lack collateral, who frequently lack even the minimal kinds of skills that are necessary to get loans. They are for enterprises which normally will not generate the type of collateral that can be the basis of any kind of loan.

They create employment. It is not the kind of high-tech, high-paying employment that we would like to have, but nevertheless it may be the type of employment that people who are in the direst economic straits can use as a stepping-stone out of extreme poverty into maybe less poverty and maybe out of poverty into development.

Microloans and microenterprises, then, are a mechanism for helping people to transform their lives. As they have been developed around other countries with the assistance of the U.S. donor agencies, they have used a mechanism of forming solidarity groups as the basis of loans to avoid cumbersome administrative overhead and to be able to give people the flexibility to go into new kinds of enterprises, small loans. They have allowed people throughout the poorer countries to develop enterprises which serve the very community from which they are derived. And so they serve economic development doubly. They provide employment for people in poor areas and that type of employment provides services to these areas.

Now, obviously, if you are going to have sustained economic development in poor inner-city neighborhoods, you are also going to have to provide types of enterprises which serve outside the community where the income is. Microenterprise lending has, in fact, done that throughout the developing country.

It is, in addition, very small types of enterprises that are part of microenterprise lending. As they get going, some of them accumulate surpluses, but the type that they accumulate are too small to be placed in the banks, and so structured microenterprise lending using small groups as the basis of lending are placed where these small enterprises can also accumulate savings for their personal expansion. They are institutions that have been created in these developing countries which have provided sustained development.

I would suggest, sir, that in a situation where we are talking about welfare reform of 2 years and out, where we are talking about phasing people out, that microenterprise lending and the structure of microenterprise lending would be a mechanism for this transition out.

Now, if I may refer to a couple of things that have come up today. One is, when you talk of your 8(a) firms taking people from the housing projects and giving them training to help them, that is the type of activity that microenterprise lending does. I commend your program, sir. I also suggest that probably you could gain fruitfully from looking at the experience of these similar types of programs.

I have, over the last few years, seen occasional statements of interest in microenterprise lending on the part of then Governor Clinton from the State of Arkansas. I have seen Jesse Jackson speak of it from Chicago. And they referred specifically to the Grameen Bank.

Clearly, the Grameen Bank and these other institutions, we have to recognize that they have had enormous successes and also enormous failures. So the benefits of drawing upon this experience is to draw on their successes and to learn from them, and also to draw upon their failures to avoid those difficulties.

These programs are perfect for transition out and welfare reform because all microenterprise lending programs that I am aware of that go on in developing countries have small administrative subsidies. They involve the types of training that we have spoken of.

So without going into further detail, I am sure that you are not interested in my experiences in Indonesia or Bangladesh or Ghana, but I can indicate to you that these institutions do work. They can be very effective. The U.S. Government has accumulated a large amount of experience in promoting them. They have put this experience into research documentation. And my suggestion—my recommendation to the subcommittee is twofold.

One is, I would like to endorse the earlier request for more microloans and more microenterprise lending.

But the second suggestion I would make is, I would hope that the subcommittee and those who are involved in these activities will not forgo the vast amount of experience that the U.S. Congress has mandated and authorized and that the U.S. Government, through its donor agencies, has accumulated through this type of activity in the past.

Let me close by apologizing. The document that we submitted has neither the name of the Center of Public Policy at University of Houston nor my name on it. I hope that does not reflect on the quality of the work.

[The prepared statement of Mr. DeGregori can be found in the appendix.]

Chairman KANJORSKI. Where would you suggest that the subcommittee get most of that information? At AID or what area of the government?

Mr. DEGREGORI. I would say start with AID. The documents that I have here are almost all AID documents, and if you wish, after the meeting, I could give you or your staff the names of it or names of people in addition to myself who have worked on those projects and who would be glad to share their experience with you.

Chairman KANJORSKI. I would appreciate that. That would help us to do some cross-pollination that we need here.

Finally, we will hear from Mr. Carlton Tolbert, senior vice president of community investment, NationsBank. The bankers are last.

#### **STATEMENT OF CARLTON TOLBERT, SENIOR VICE PRESIDENT, COMMUNITY INVESTMENT, NATIONSBANK**

Mr. TOLBERT. Thank you very much, Mr. Chairman. I would ask if you ever meet my chairman, please don't say last.

Good morning, Mr. Chairman. Thank you, Congressman Washington and Congresswoman Waters. I am Carlton Tolbert, the regional community investment manager for NationsBank in Texas; I am responsible for my company's community investment initiatives in this State. The focus is on increasing loans in low- and moderate-income areas and to small businesses.

The delivery of those initiatives is the duty of my colleague, Mr. Austin Coleman, in Houston. It is these markets, I believe, that will benefit most from the economic growth and the credit formation solutions we are exploring in this session.

Certainly, lack of adequate credit availability and investment capital have had a negative impact on growth in these sectors. To remedy that, lending will be a contributing factor in the strategies for and the accomplishments of economic growth. NationsBank realizes this reality and is committed to using its power to make a difference.

Mr. Phillips, I am not from Texas but I have learned to brag. As the third largest banking company in the United States, the NationsBank franchise covers 10 States plus the District of Columbia, with 1,900 banking centers and more than 650 communities. This territory spans from Baltimore south to Miami and west to El Paso.

Here in Texas we have 272 banking centers, 69 of which are in Houston. The territory we cover is expansive and has grown rapidly in recent years. With this expansion and growth have come lessons. One of these lessons and probably the most fundamental is that the bank prospers only when our communities are economically strong.

Our chairman, Hugh McColl, has said that a bank that limits economic opportunity of a certain neighborhood or a certain category of borrower ultimately limits its own opportunity. That basic premise is the foundation of the NationsBank philosophy of community investment. It is not just the right thing to do, it is good business.

Putting that philosophy into practice, Mr. McColl made a substantial public commitment in January 1992. He committed our bank to make at least \$10 billion in community development loans during the next 10 years. Let me emphasize that that goal was a floor and not a ceiling. During the first year, NationsBank made \$2.2 billion in community development loans; \$734 million was in Texas and \$90.8 million of that was in Houston.

Although we are still counting, I can say in 1993 we made another significant and continuing effort toward our goal. NationsBank's lending to low- and moderate-income consumers and to small businesses has increased considerably in recent years. We made significant efforts to improve our results in those areas. For low- and moderate-income consumers we created affordable mortgage products and instituted more creative underwriting criteria, and we developed our educational curriculum and we led the way, opening new banking centers in previously underserved areas.

I am proud to report that time and again NationsBank was the first to open banking centers in low- and moderate-income areas, and before long, our competitors follow. Some of our initiatives for small business include investing in loan funds like the Greater Houston Equity Fund, establishing a specialized small business banking unit to handle loans to businesses with sales of less than \$4 million.

We became a certified SBA lender and we anticipate and hope that we will be designated to become a preferred lender in the near future. We have developed a small business banking curriculum to aid small business owners in managing and financing their businesses.

Also, NationsBank, through its community development corporation, has developed or rehabilitated affordable housing complexes in joint venture with nonprofits. In Houston, for example, we are rehabilitating a 191-apartment-unit project in the third ward. These are part of the continuing effort of NationsBank to be an active participant in the economic growth of our community.

Although we are proud of our accomplishments, we are realistic and we realize that there is still much to be done. Clearly, no single industry, no single financial institution, no single government agency can do it alone. Certainly, our experience has been that the greatest successes have come through cooperative efforts. It is public-private partnerships which are key to meaningful impact. That is why I am happy to represent NationsBank as a part of this discussion to find solutions, and it is worthwhile that you are soliciting feedback from the community regarding Federal assistance and programs with the aim of making them more effective.

I would like to make three specific observations which I believe are key to addressing the issue before us, that of increasing economic prosperity of our neighborhoods and particularly those which lie in the shadows of progress.

Proactive local agency management: Houston's SBA office has been extremely proactive in communicating with financial institutions and the small business community about SBA programs and requirements. They have also been good listeners and they have been very creative. Programs such as TEXCAL, the Loan Express Program, the Low Loan Documentation Program and timely turn-

around have benefited both financial institutions and borrowers. This approach has taken a lot of mystery and the potential aggravation out of the process. Clearly, encouraging proactive leadership with autonomy on the local level is critical.

Additional microloan funds: Greater availability of SBA microloan funds to complement the private financial community to meet the needs of small businesses would be a great benefit. The current limitation, which I believe, statutorily, is four per State, seems inadequate, particularly given the size and scope of Texas. Houston as the Nation's fourth largest city does not have one.

Additional long-term financing for small multifamily real estate projects is my third issue. Additional affordable multifamily housing is a significant need and a key to economic development and the quality of life in low- and moderate-income communities, yet there are inadequate sources of long-term financing for these types of projects.

Banks are shorter term lenders by virtue of their funding sources. Consequently, when banks make construction or rehabilitation loans, those loans are generally short term.

A large universe of potential and traditional lenders exists for such projects in higher income and economically stronger areas. However, great uncertainty exists with respect to the refinancing of small multifamily properties in the communities that arguably need such financing the most. Long-term lender attitudes, prosperity and property values in the underlying economics of these deals contribute to the difficulty. Among the potential solutions, I believe are providing additional pools of capital through government agencies for this purpose; and second, under the jurisdiction, to some extent, of this subcommittee, broadening the scope of financial institutions such as insurance companies and the like that are expected to operate under and hopefully within the Community Reinvestment Act.

NationsBank is sincere in its desire to make a difference in our communities. We know that we have to do more and we are committed to do so. Our sincerity and our commitment is measured by our results.

Your willingness to investigate solutions represents a sincere commitment as well. It will take the efforts of many segments of our communities to stimulate economic growth and to meet the needs of our communities. NationsBank is committed to being a part of that effort, and we appreciate your invitation to be a part of this discussion. I thank you for your attention.

[The prepared statement of Mr. Tolbert can be found in the appendix.]

Chairman KANJORSKI. Thank you very much.

Now, I know that there are an awful lot of people in the audience that would like to make a statement, and we would appreciate any information and input, but in order to try to keep on schedule, so that we can close the hearing within the next hour, it is my intention that we have a roundtable discussion of the panel members and the Members of Congress. And I invite anyone who would like to contribute either a question or a comment to formulate it and get it to Congressman Washington, or my staff and Congressman

Washington's staff, and he and I will work carefully from that input.

Sometimes when you have audience participation, you become focused on a very specific question which doesn't necessarily help us handle the entire policy matter that we are here for. The Houston district of Congressman Washington is particularly unique. And, quite frankly, it is very close to my district, and yet we are thousands of miles apart; in a matter of census, we are quite different but we do have similar problems so that we identify with each other from across the country.

And when I talk to Congresswoman Waters, I have an affinity with her district.

But if you have a question, put it in writing and direct it to Congressman Washington. The subcommittee staff or we will respond, and we will include it as part of record.

I wanted to start out with an observation on the panel. I heard so many good things. But I just have a problem. We have all of these programs and all of these ideas, but you know, honestly, my constituents and I just had two meetings this week and they come to me and they ask a simple question: How do you find out what to do? And I am talking about some very sophisticated people in banking and industrial development.

It seems to me that whether it is SBA, EDA, CRA, or microloans or anything, there is a wealth of information and material and programs already in place but there is no connection with the community itself. I would like to really address two questions.

One—and I am going to say, Mr. Phillips—are you aware of any Federal Government publication that lists all programs involving economic development of the U.S. Government and has been reduced to user-friendly language? Is it at a level where the average person who wants to start a small business could really understand what it is all about without having to hire—in our part of the country, a Philadelphia lawyer, but down here, a Houston lawyer to find out what it is all about?

Mr. PHILLIPS. I will give you a quick answer on that. The State of Texas at the State level does have a bulletin board that you can access. And I guess Ms. Jean can explain that better than I can.

Chairman KANJORSKI. But is this accessible by an average person who wants to go into a lawn care business? They live in a public housing unit. They are able-bodied and they want to go into a lawn care business and they need \$25,000 for grasscutters, chemicals, rakes, and so forth.

Mr. PHILLIPS. They would have to have a computer.

Chairman KANJORSKI. They are gone, then?

Mr. PHILLIPS. Right. I think, to give you a good answer on that is probably to have to say, no, of everything that is in the Federal Government. There is a lot of effort being made to educate the public on what is available to them. But it is still not known, particularly in the underrepresented areas. Those are the ones where we need to make greater penetration.

Chairman KANJORSKI. So we have some sort of a need for that. In legislation we should mandate some way to have a computer network that is user friendly, reduced to the level of the people that are looking for the jobs and looking for the businesses. That

way they can easily access and understand all of these complicated restrictions and compliance requirements.

The second thing that I would ask, is there any repository in this country that lets people in Pennsylvania know what great work you are doing in Texas or what great work they are doing in California?

Ms. JEAN. Not that I am aware of. And we have had to do with this every new program that we are implementing, especially in the area of defense conversion.

Chairman KANJORSKI. You understand that so often you will go to meetings like this, and they have already solved the problem that you are working on; sometimes we seem to be spending so much creative energy in reinventing the wheel.

Dr. DeGregori said that we already have the answers in the policies and programs that we have used overseas, but we don't seem to have the capacity to bring it home. Is it correct that we should look at some sort of private/public partnership to create an institute for governing that could assimilate and accumulate of this wealth of information from the 50 States and around the world so that the experts can figure out what applies to their area? Would that be workable?

Ms. JEAN. Yes, and I think we are moving toward that with the information highway and Internet. And as we develop more networking capability through access, through computers, I think that something that we will have in the future is access to information via modem or whatever.

But, unfortunately, if you want to start a new program right now, you pretty much have to call around. You call the various Federal agencies. You call trade associations. We call the National Governors Association.

Chairman KANJORSKI. So in all 50 States they would have to have 50 calls or 200 calls?

Ms. JEAN. You make a lot of calls because you don't want to reinvent the wheel.

Mr. AUSTIN. In our case, we are members of the National Council on Urban Economic Development. And that organization, based in Washington, disseminates those kinds of lexicons that give you all that kind of information.

I might add that the Federal Government has just started a process to perform that kind of consolidation with the empowerment zone and the enterprise communities where they actually develop a lexicon that gives you information, whether it is housing development, fiscal infrastructure, safety or, especially, economic development and what Federal agencies you would work with.

I think the Windows on State Government by the Comptroller's office also allows you to perhaps call the Comptroller's office with a 1-800 number to get information.

Chairman KANJORSKI. But there would be no way in a place like Houston that you could pick up a total-access, user-friendly way to all the economic development programs of the Federal Government and all the various agencies, departments, and bureaus thereof and all the various States?

Ms. WATERS. Mr. Chairman, I think maybe it is in the Department of Commerce, there is an RFP, request for proposal, out for megacenters. Is this in your department?

Mr. STRAUB. The megacenters are part of what EDA does, but more specifically, I was going to talk about a program which already exists within the Department of Commerce, specifically within the Economic Development Administration.

We have recently begun an Office of Economic Conversion Information in collaboration with the Department of Defense. It is designed to provide information to communities, businesses, and individuals affected by a variety of defense-related activities.

Chairman KANJORSKI. But it is just done on the defense conversion? I mean, what happens—

Mr. STRAUB. It is in its infancy and it is designed to incorporate into it information that will be applicable to all—

Chairman KANJORSKI. The problem that I have seen—and we have had seven hearings around the country—is that unless you know that we have a defense conversion program and you get on that road and go down it, you don't find out about it.

I cannot understand why in this day and age, with the sophistication of software and computer programs, the average American citizen should not have a right to access all of this information, rather than having to hire a consultant or a lawyer, or go to a diversity of agencies and entities.

Usually, I will tell you—I guess I am preaching, but if you have ever been on the other side of the desk, if you really want to go into business, you go to one or two agencies, and then you are told you can't get there from here—if you are really persistent, you will go to six or seven agencies. Probably, in some way or another, because of the rules and compliance and regulations, they frustrate the bejesus out of you, to tell you the truth. And then maybe you are so dogged they will go through the 20 or 30 agencies, and maybe you will hit home run.

Or on the Federal level, I just do not understand why we are not user-friendly.

Mr. STRAUB. Mr. Chairman, as I said, this is an office that has just recently begun. It has been up and running for just a couple of months now. And it came about through the efforts of Senator Boxer to create an office which would provide economic conversion information. Given—

Chairman KANJORSKI. Yes, I understand that and I sympathize with Senator Boxer from California, but Ms. Waters and Congressman Washington and I do not necessarily live in the middle of a downturned military installation. We have a hard-core, economically deprived district, that has to have equal access.

We are worried that if you channel to conversion areas—I will give you an analysis of Pennsylvania, because I represent Pennsylvania. I want you to take it home. During the 1960's and the 1970's and 1980's we had to convince our constituents to vote for defense appropriations at a large level because the CIA convinced the President that the Russkies were going to walk the channel. That was not true.

But we spent that money, and mostly in those parts of country, some in Texas and a lot in California. But now that is over and

when we go through a defense conversion, the fear of those bases being turned into world class industrial centers is putting great fear in States and in congressional districts like Congressman Washington's. We are getting the second side of the whip.

We are going to be denied access, too, because we are channeling in. I can tell you I have spent enough time with Maxine Waters to know about her district, and denying people access is not going to put people to work. And the same in Congressman Washington's, and the same in mine.

What you are doing is admirable, but it cannot be channeled to just those areas. Everybody out here has a right to have the same access.

Mr. STRAUB. It is for that reason that it is the Agency's intention to expand the office's operations outside of defense-related activities. We are currently exploring how we can adapt it to EDA's various disaster relief activities, specifically aimed at the Midwest and California. And we further intend, over the course of the remainder of this year into next year, to adapt it to EDA's overall program activity.

Chairman KANJORSKI. It is my understanding then that the Economic Development Administration, Department of Commerce, would not be opposed to—when we reauthorize the Economic Development Administration this year, our mandating a broadness of scope of this type of entity to open it up to all Americans on an equal basis?

Mr. STRAUB. That certainly wouldn't be a problem for the Agency. The intention of this particular office and the Agency as a whole was to provide the information in a flexible and comprehensive manner. And that is why the information which is currently maintained on the system is available in a variety of means through a toll free number by phone, fax, and computer.

Chairman KANJORSKI. There are not too many people in Congressman Washington's district that have computers.

Mr. STRAUB. That is why it is available—

Chairman KANJORSKI. It is like telling my district, it is in the Library of Congress. I understand. I am just being facetious.

Mr. TOLBERT. Mr. Chairman, one initiative that I believe in is an SBA initiative called the One-Stop Capital Shop, which is related to enterprise zones and enterprise communities. It is a great delivery mechanism from the standpoint of the small business person or consumer. But I can tell you, as a banker, that we have the same difficulty, and we have computers.

This One-Stop Capital Shop, if you could combine it with a One-Stop Information Shop, would certainly be of benefit to all of us.

Chairman KANJORSKI. Yes, I would like to get some of Congressman Washington's questions. Can I pick on the banker for just a second?

Mr. WASHINGTON. Sure.

Chairman KANJORSKI. Everything that we have heard here indicates that there is a vacuum, a need for venture capital—and a need for underwriting loans. And people have moved from traditional banking institutions to looking at State and Federal Government for either guarantees or underwriting.

I am just saying to you and I say this at every one of our hearings as we go around the country: I imagine that the banking business and industry are risking a great deal if they do not get very proactive in finding a way in the private sector to serve this need. I see that vacuum very quickly being filled by either the State or the Federal Government. And I think it could be your future product, if you will.

Some of the people who create these businesses are going to end up as fairly large firms, and they will not be identified with normal banking and they will probably receive a negative reaction. So for what you are doing in CRA, I congratulate you and I urge you to work with some of these people on a much closer basis, or you run the risk of being a vacuum.

Congressman.

Mr. WASHINGTON. Thank you, Mr. Chairman. I just have one question I would like to throw out to all of our experts, and that is I need to know whether there is any value and whether there are ongoing programs in this regard. It seems to me, if you take the analogy of a grant proposal—or a lot of times we try to figure out what we think are the important things.

We take a lot of testimony, we have hearings like this, and we go back to Washington; and some vehicle will come along, and one of these members that serves on the Banking Committee will remember that here is a perfect opportunity for us to refine this. I remember the testimony that I heard from that banker down in Houston, or this person here or there, and we can tailor something directly to a need.

And it occurs to me that one thing that perhaps we ought to do, if you think that it has merit or perhaps it is already being done, we need to focus a little bit more, I think, in communities like this and be more proactive in another sense. That is, rather than wait for various entrepreneurs to develop the spirit and come up with ideas and bring them to your various organizations and let you react to them, take them through the process and approve, for the most part, the loans, have we been given any idea and have we made an assessment of what kinds of businesses could work well, from Houston, what kind of entrepreneurs could go into business?

In other words, are we leaving it to the private entrepreneur to come up with the idea and bring it to us, or are we as a governmental organization being proactive enough to say, OK, this is part of the information we are going to give out. We think that because of geography and because of transportation facilities through the port and the highways and the airports that these are the kinds of businesses that would grow and prosper in Houston.

Like an RFP, we throw out some ideas; here, Houston, are some ideas that we think will work through the Houston-Galveston Area Council that NationsBank would be interested in looking at, that the SBA would be interested in helping to finance.

My question is, are we waiting and reacting to what the people in the community are doing, or are we taking into consideration that an assessment needs to be made as to what kinds of businesses would work well here and disseminating that information to them at large—in other words, kind of suggesting gently to them that they ought to move in such and such a direction?

Ms. JEAN. You might want to handle this because I think that is the whole purpose of the regional prosperity planning initiative.

Mr. TAAEBEL. Right.

Congressman Washington, I believe that with both the EDA's overall Economic Development Program and the State's economic prosperity issue, this is exactly what has been recognized. The EDA Program, to a certain extent, allows you to develop the goals and objectives for the types of grants and the types of loans that will be in a different district or region of the State.

Aquaculture is one that has come up. We have had some seminars to bring fledgling aquacultural programs in. We have provided this to both lenders and prospective developers of aquaculture programs. The revolving fund of EDA would help us with this because we could design some of the loan criteria to a business like aquaculture that maybe the bankers are not familiar with because it is an emerging area.

I think on the State level you are to be commended for allowing community and business leaders to help shape the criteria. I think—with EDA and State programs providing more flexibility in that regard, I think it is incumbent upon us to get that information out to the potential consumers of these programs.

Mr. WASHINGTON. Thank you, Mr. Chairman.

Ms. WATERS. Congressman, I guess I hear an awful lot about the problems that confront us in this country as we try and deal with the problems of our cities and investment and economic development. And I guess it all boils down to a very few issues for me. One, we all know that there is just a lack of capital available for any source—government, the private sector, and so forth—and that there is going to have to be a willingness on the part of everybody to basically trust the American citizens and provide some capital.

I commend NationsBank because you are doing more than most. And as we look around the country and as we see what is going on in this and make CRA evaluations, and so forth, we know that people put a lot of time into finding out how they cannot invest the money in the communities that are needed.

So if there is anything that we can do for Texas, for Houston, for California, for any of these communities, it is to try and shame everybody into making capital available, because that is the only way that we are going to create jobs and create opportunities. So I think the banks need to look at new products.

I have discovered, Congressman Washington, as I have been looking at this over a long period of time, that much of what we have thought about in a traditional way, we just need to undo our thinking. There is no need—where we have to say to people, you have to have 20 percent down to buy a house. People who put 20 percent down are no better risk consumers than those who put down 5 percent or almost nothing. If you have a good job—well, a job, just a job—and you are willing to take \$50 of your \$500 and pay it every month on something, you ought to be able to have something. And we ought to find ways by which we can create that kind of attitude and that kind of thinking.

I think we have not talked about pension funds. It is a lot to talk about when you talk about economic development, but we really do need to look at pension funds as a source of capital. Pension funds

are dollars that are paid in by working people. And we take working people's money and give it to everybody else but working people. And we need to find a way to give it back to them to invest in them.

So there are some big public policy issues here that all of us are going to have to try and deal with. And I think, you know, just making this—some of my observations—Dr. Thomas DeGregori, you are absolutely correct. I am almost ashamed when you say to us that not only have we made microloans available, we know how to do it, we know that it has resulted in some real economic developments of very, very poor communities and that we are not using what we have learned in order to make that available to our "Third World Countries" right here in America in housing projects and in other places.

You are absolutely correct.

And if I have learned nothing more today than just to take a look at what we already know and to think about how we can make microloans available, and that it is a good idea to look at it in welfare reform. A lot of people are going to be punitive, and they want to talk about welfare reform as a way of punishing "them people," but this is going to provide us with an opportunity to talk about how we can take some of what we know and place it in that welfare reform legislation and make it work for people.

So every time I am in one of these hearings, Congressman, I learn something. And I thank you, I guess, for the opportunity to learn a few more things today.

And to say that if there is anybody who has the will and the desire to do things that need to be on the cutting edge, it is Congressman Washington. And I am sure oftentimes he is up against a lot of resistance because he is a man of new ideas and a man who has the guts to be on the cutting edge of new ideas. And I am certainly going to support him in his efforts. We are going to support each other in our efforts to do this cutting-edge work.

This subcommittee also provides us with a new opportunity to surface the issues in new and different ways. So I think if there is anything we can do, it is to take this resolve and do something with it and make something happen.

It is not easy work. There are traditionalists who don't like this kind of talk about how we help very, very poor people or how we talk about using microloans, about how we talk about new ideas to empower people who have not been empowered. We are going to work on this Banking Committee; we are going to try to make CRA real.

And I am like you. I don't mind bringing everybody into it—insurance brokers and mortgage bankers and everybody, and community development banks who are willing to do the work that bankers haven't been willing to do.

We ought to increase CDBG money. Take the microloans and put them into CDBG, and take a look at section 108 loan guarantee. That is kind of my emphasis, because it is a way to use some new money that we haven't had available to us.

So thank you all. And let's do it.

Chairman KANJORSKI. I want to thank you, but I am going to put Ms. Waters on the spot. I want to call your attention, Maxine, to

the Secondary Market bill that we have pending. The panel may also not be familiar with it. We have a bill that allows authorized banks to take small business, medium-sized business, and large business loans, pool them, and sell them in the secondary market to the pension funds.

We have included in that equity stakes and community development loans, so that you can take your community development grant, make the loans out, pool those loans together, resell them to the pension fund, reel in that money and pyramid it along. There are several bills pending from the Senator from New York, D'Amato. He has a very limited bill on just small business loans.

There are others who are trying to put other bills together. Ours encompasses everything, including community development. And I guess the question is, should the government insist that low-income community loans be included in the secondary market?

Ms. WATERS. I think it is a great idea. As a matter of fact, one of the things that I have discovered in the past 3 years that I have been working on the Banking Committee, many of our small banks in some of these small communities who wish to do these things have not had any market to put it out to.

One of the meetings that we have next week is with Fannie Mae to talk about Fannie Mae picking up some of the mortgages from the small and minority banks who have just not had any secondary market. And part of it has to do with some insurance and some other kinds of things. But we are going to break down those barriers so, yes, I support that very much.

Chairman KANJORSKI. The other bill that I will push, and I want to compliment Congressman Washington as an original cosponsor of this bill, is the Federal Technology Commercialization and Credit Enhancement Act. And what it does is, it establishes a data center for all the technology patents processes that the U.S. Government has invested in, in the last 20 years which exceed \$2 trillion in investment. The patents are held in various areas of National Laboratories, the universities and colleges and the departments and agencies of the U.S. Government.

We want to put that in a central data base and construct a public-private partnership to market this technology. And the way we hope to market it is something similar to the Discovery Television Network that for 1 minute or 3 minutes or 5 minutes you could view an entertaining presentation. That way, average Americans could understand what is out there and then negotiate with the corporation to buy it at a cheap cost.

We do not want to make money on it. We want it to stimulate business and create wealth, and a one-stop shopping: You would deal with one agent of the government and put the deal together. And finally, we want to create a financing vehicle of \$3 billion a year of venture capital. That would put the government or the corporation in the business where private individuals need high venture capital.

The point of all of this, going partially, Mr. Mitchell, to what you talked about, is that all jobs are important, but if we are really going to have opportunity, we can't think of disadvantaged areas as having one type of job, low level, low income, and other areas of the country having high-tech jobs. And it seems to me that we

have to find a way to allow, again, all Americans to have access to the billions of dollars spent on technology. If they see something that they would like to form a small business around, they cannot afford to hire a Washington consultant, a Philadelphia lawyer, and they cannot fund \$1 million like any large corporation can.

We have got to make that accessible, particularly, I believe, to the minority community. I wanted to compliment Congressman Washington, because he is one of the—is the original cosponsor of this bill. And it is all directed toward finally giving the types of jobs we are all looking for for the community, rather than the low-level jobs—the medium and high income so that we can have middle class quality of life living in all of these communities that I consider disadvantaged. And my district is just as disadvantaged.

Ms. JEAN. I don't want to appear that I am on the side of the banks, and I agree that banks should develop new products for small business. But at the same time, banks are profit maximizers. And I think that regulations need to be changed to more encourage banks to make the kind of small business loans that they are not really covering right now. And there are a lot of things that the Federal Government can do in that area. And I think it definitely needs to be considered.

Profit margins are smaller generally for small loans, but they take more service, you know, so it is more costly for banks.

Chairman KANJORSKI. That is one of the concepts of the secondary market and if you combine the concept that you take the loan and sell it to pension funds with the concept that EDA has in underwriting that 10 to 20 percent, you can see that you take the risk out. The only question that I have on that, at some point, if you take all the risk out of it, I am not sure we need banks. And so we have got to have the banks willing to take some risks.

Ms. JEAN. I am saying the incentives; not decrease risks.

Chairman KANJORSKI. On the Secondary Market bill, in regard that it should apply to minority communities and women, could I get you on record as to whether or not you support that at all?

Ms. WATERS. You just got me.

Chairman KANJORSKI. How about the panel?

Mr. AUSTIN. I definitely agree with that. But going back to Congressman Washington's issue with respect to if you put all of that on this Discovery Channel, even if you have the best business concept in the world there, you still have a problem of matching market analysis in terms of the inherent basic skills that the business person needs, like business plan, market plan, and that is where incubators come in.

Milton runs a good one and that is where colleges and universities come in. Colleges that are on the cutting edge of apprenticeship training and work force development and make colleges in terms of R&D and you have spillover effects with that information into new technologies, but what we have not done is that just as we are looking at things no longer vertically in just EDA or another program, we are going to have to do the same thing with financing.

I contend that if you take IDBs, the revenue bonds that are tax exempt, and require some participation in distressed communities, you take credit and equity components of banks and CRA and their

willingness to lend just as they are shaping in the housing markets, their underwriting criteria, then do the same thing in terms of industrial and commercialization in terms of underwriting criteria.

When you put all of these things together with Federal, States, local, and private entities and quasi public entities, I think you would not see one pool of capital. You would see a massive pool of capital. And to kind of facilitate it, there would be a necessity to increase your incubators because you want to ensure that that businessman doesn't get out there as most businesses do, the first 2 years is a volatile period and they need the coaching so that they become a viable business.

I think that you will see a change in this country. And I liked the idea of entrepreneurship for young people. We need to teach people that if there is not a job, create one.

Chairman KANJORSKI. I think Congressman Washington indicated that you are reaching out to get the young persons coming through to become entrepreneurs. We are being proactive and I think that is a major part of our program.

Mr. DEGREGORI. You mentioned getting access to the technology. Again, we may have done better overseas. As far back as 20 years ago the Department of Commerce, through the NTIS [National Technical Information Services] was pedaling all over the world satellite access to information about U.S. technologies and ways in which you can get this information sent to them. And I know in projects that I have worked in developing countries that we have done searches of available technology by satellite and using U.S. information bases by the Department of Commerce. It is tragic that we don't use them in the United States.

Chairman KANJORSKI. We do not. And let me tell you that is one of the things that stimulated my whole approach to this 7 years ago. Because I went to that very agency, the National Technical Information Service, and I found that the Japanese Embassy had 21 people employed every day in Washington that went down and studied those processes and they were the major purchasers of those patents. We have to find some way that the average American who wants to get into business has an opportunity equal to our competitors around the world.

Mr. DEGREGORI. And along with Congressman Washington's legislation, I did a study for the Agency for International Development of a program called Midust in Bangladesh. And I found that the single greatest cause of the failure of these enterprises was not lack of management, although that was important. But they had selected the wrong technology. And I would suggest, therefore, that you need a system to give people access to technologies and knowledge of that technology. And overseas we have done several things. We have pioneered long distance information systems teaching math to third graders in Nicaragua.

This type of thing would be very profitably used in the United States. And so there are a whole range of things that we have done overseas by various agencies of the U.S. Government that are massively applicable.

And one final point; not only do we know the successes, but we also know the failures and that is very important because if you

start a program here and you have too many failures up front that replicate what has been done overseas, you might get a very viable and important program cut off before it has a chance to prove its merits.

Chairman KANJORSKI. Doctor, I think you are absolutely right. And I did not mention this to Congressman Washington or Congresswoman Waters. I had the occasion 2 months ago to have a similar hearing to this in Savannah, Georgia, with Cynthia McKinney and we spent 3 hours at the hearing discussing her district and then we toured her district to feel the pulse of the community leadership.

You have to understand I come from a district in Pennsylvania that has six-tenths of 1 percent minority so hardly do I have the same specifications that your district has, Craig. But you know what I found? We have identical problems in my disadvantaged white district as many of the disadvantaged minority districts of this country have. And that word of empowerment always comes up.

In my district they are always looking for someone to empower them and we hear that also—I have heard it and I realize that there is an overemphasis on those of us in the elected office and the leadership, but what I found is that there is a tremendous dynamic interest out there to get an equal opportunity to share. And we are not giving that. That is why I said, we have got to make it user-friendly and accessible. They have to have equal advantage.

My district economically is deprived because they do not have the opportunity to access this material. They cannot afford to go to Washington and hire the consultant and they cannot afford the lawyer. And if we can break through that—one of the members was talking to one of the people in the administration, and said that there are a lot of Third World country psychologies that exist also in the United States. We have to take what we have learned there and apply it here.

We have to do it in a friendly way, if we can. If we do not survive and if we do not create those entrepreneurs that Craig is talking about in all communities, we are going to have a hell of a society in the future, whether it is in my disadvantaged community in Pennsylvania or in Craig's or Maxine's.

Mr. TROELL. As a personal observation, are we doing enough to teach young people that the key to success is savings and investment? That is part of entrepreneurship. Are we at the Federal level giving people tax incentives to save money? It seems to me that we don't do that for the average person.

Chairman KANJORSKI. You are probably correct. When you look at the tax credits and tax savings, you have to have income. All of my friends on the other side of the aisle are saying to me, we are going to handle that with tax credits in the health care plan. Hell, if you do not have a job, you do not need a tax credit.

Mr. TROELL. But when they get a job, if they are able to save some money, why should we tax that until they reach a certain income level? I am talking about these lower income people.

Chairman KANJORSKI. The earned income tax credit of President Clinton goes directly do that. But you bring up something. We are all willing in this country to build prisons and boot camps, but we

should have a program—and I think Maxine would be a sponsor—that helps us find these able kids that are coming along in the first and second year of high school and give them challenge grants. If you want to run a little business, I do not care whether it is a lawn care business, but enough to get them started. And if they succeed at it, we will make them a no-interest loan so that they are guaranteed to go to college or to go to one of the skills schools to learn. We are not doing that.

We are thinking in this country as if everyone is born with it or it is going to drop out of heaven and suddenly you graduate from college and you are an entrepreneur. I think that most entrepreneurs are raised in cultures. They are encouraged and they have learned what the tricks are.

Mr. MITCHELL. Mr. Chairman, relative to your comment about pulling all the resources together, I know that SBA with the empowerment zone is going to have the empowerment center. Various loan programs, commercial lending institutions would be all under one roof.

What we are doing presently here in Houston with the project, Congressman, in your district, Palm Center, which has been redeveloped as a mixed use concept where we take education and training, mirror that or couple that with providing a nurturing small business environment through the incubator and having some space for light industrial manufacturing and retail. We create synergies.

Houston Community College is teaching instructional courses in English, math, vocation, history. We have GED programs for youth ages 17 to 22. The Job Training Partnership Council operates a skills center there. There is a literacy center to teach adults literacy. And then we have the small business incubator where we put on seminars to teach people how to start a business and what a balance sheet is.

We are working with Mr. Milton Wilson to establish a satellite information center. They have one but it is far removed from the inner city. We want to establish one right in the heart of the community where people live and give them access to information, computer systems that we will set up, they can come in. A lot of people can't afford to go out and buy a computer, so they won't have it. But they can come to the Business Information Center in their community and access that information and learn how to start a business.

So all of that together we are trying to pull together under one roof and hopefully be able to give people the type of access that they need. Again, a kid 17 years old he may go and get his GED and then he may go to the IBM-assisted training center and learn how to operate the computer; DOS, and various systems, and leave there and go to Houston Community College and take courses and come to our incubator and take courses that are free of charge.

I think it is that type of collaborative effort, we have the private sector supporting those activities that already exist rather than recreating new entities.

With respect to your comment on the secondary market, I think that is very important and I would certainly support that. We make loans currently anywhere from 3 percent to 6 percent fixed.

We have less than 5 percent default rate. Even though we are going into communities that are economically depressed, we have been able to make the loans.

We look at character in order to determine whether or not we should make this loan. Banks, I think, have been historically, again, somewhat reserved. And I understand that they have regulators looking over their shoulders saying that you have to book certain types of credits, but if we could reduce the regulations that banks have to adhere to in communities with extenuating circumstances, I think we could improve things.

If we make a loan at 4 percent, the rate is so low, it is not profitable for somebody to buy it on the secondary market, but I think it is a good concept. I think we all need to pull together with respect to agencies such as ours that exist, but we don't have access to resources. There was an equity fund that was established here in Houston to provide equity injections into small business recently, spearheaded by Texas Commerce Bank with the participation of all the major bank holding corporations, which is great. But then, again, you have vehicles that already exist that are serving the needs of the communities that also need support.

Ms. WATERS. You are absolutely right.

Chairman KANJORSKI. I want to make a point. That is partially what, in our concept, the technology transfer network would do. It would be like Discovery, 24 hours a day. It would be sent out through all the cable stations and it could break away for 2 or 3 or 4 hours to Houston so that you could center in on the particular problems in Houston and relate to the people in this area calling to their attention what they should see and what they have, and doing that mass media.

I just believe that the average people that really need the help and the access, whether it is to the National Technology Information Center or whatever it is, that they are not getting it. What we have emphasized are the big business corporations in America, the successful people in America, and the foreign people. They have the run of the shop. The average, middle-class American or the underprivileged American is almost shut out. In conjunction with that, as we have welfare reform, we now have a program in the Defense Department of mentors for small businesses. There are large corporate entities that give consulting advice. But why not have an apprenticeship system from the bottom coming up. Someone is disadvantaged and has lost their job and they are on welfare and they want to get into the small businesses. They could get the learning experience of what it is like to run a business.

We have to create learning opportunities. I am excited about what I have heard today.

Mr. DEGREGORI. Again, sir, we have a model that was developed in the United States that is useful for precisely what you want to do on television. In the twenties, thirties, and forties the first thing that the farmers did was turn on the radio and they got all this massive information. Now, we have worked to develop similar types of information distribution systems abroad. And so in many ways there, again, you can learn from our overseas experience what was a transfer of an American model overseas and is now being done on television with replicas of Sesame Street to be ap-

plied back to the United States. And I think that would be, again, a very useful experience.

Chairman KANJORSKI. That is an excellent example. One of the things that I fear about the information highway, if this is a bidout situation and it ends up going to limited areas, it is going to go to the wealth centers of the country and stay out of districts like ours.

Ms. WATERS. I had an opportunity to go to a hearing of that sponsored jointly by the Department of Commerce and—well, I guess it was FCC. And I really began to understand that if every citizen in America really had to pay the actual cost of telephone service, we could not afford it, but that service is subsidized by people who spend lots of money on the more sophisticated technologies, and so forth, related to the telephone service. So we have to redefine in basic service and access in ways that we include in it the new technology that would cause us to have storefront centers where people could access this information and the cost of it would be borne by those who spend lots of money for all of these technologies.

And to tell you the truth, it must be that way. The other day, someone called my office raising a question about Carter Woodson and the start of black history and how did it all come about. And my staff got on the computer and accessed the Library of Congress and we found all of the information that we needed in order to give to the constituent. But it is a shame that a few of us have that, and a few people may be the only ones to have it unless we ensure, starting right now, as you are trying to do, that we do not allow this information to only be available to the rich or to the powerful. So this business of the community centers is an extremely important concept that we are going to have to embrace and support right now and make sure that we have these operations so that not only business persons, but schoolchildren and housewives or anybody else can access information that will empower them to better be able to negotiate their environments and their surroundings.

So there is a lot of discussion going on about it and at that hearing the other day in the Los Angeles area with the FCC and Commerce helped me understand what we better do in Congress in order to support the idea of access to information.

Mr. TOLBERT. Excuse me. For the average citizen I would think that the network of public libraries around the country could be used, that is where people go for general information anyway.

Ms. WATERS. Most of them are devastated by the cutbacks in local government. And, as a matter of fact, one of the greatest sins in America is libraries are closing all over the country.

Chairman KANJORSKI. All those things that give basic needs to people.

Congressman.

Mr. WASHINGTON. No, sir, I am learning so much that I am just being quiet.

Chairman KANJORSKI. I made a promise that we will wind this up by 1 o'clock because Congressman Washington and Congresswoman Waters have other commitments that they and I have to make. Everyone that is here, I would appreciate it, if you have not, to sign in on the sign-in sheet. Give us your name and address so that we can pass on any additional information. And again, if you

have a question or a statement that you would like to make, if you will submit it to Congressman Washington's office, we will have it and we will make it a part of the record and we will respond to it. We guarantee that.

Finally, I have got to thank my good friend, Craig. And I want to tell you why I really took this Saturday or this entire weekend on President's break. I would say 400 of the 435 Congressmen in the United States are in their district right now; Lincoln-Washington functions going on everywhere. It is our chance to touch hands with our districts.

But when I first met Craig Washington, he succeeded a good friend of mine who died in an airplane crash and we had been working closely together just before his death. Craig came to Washington with a deep, barreling voice. But more than that voice, with one of the most impressive minds that I have ever run across. He has the capacity to catch the attention of the Members of the House of Representatives and the administration. But it is not only the fact that he catches your attention, he absolutely captivates you with his intelligence and his brilliance. I consider Craig Washington to be one of the most exceptional Members of the U.S. Congress that I have had the opportunity to meet in 9 years.

As a matter of fact, I consider him the conscience of the Congress of the United States because he is one of those few Members up there that very often, when there are only two or three or four votes or maybe one who has voted against something, Craig sometimes will make that vote. And he and I will go talk about it and he is right; something that is wrong.

We often have a herd mentality, but he stands out there and is a voice. He is so impressive that he is one of the few Members on the voting board that I look at in almost every vote that I make. He has had a personal effect on my life as a public official. And he has created in me the highest admiration that I could say I hold for any Member of the House of Representatives or the government.

So when I knew that Craig had similar problems in Houston on economic development and I was chairman of this subcommittee, I could not think of anything more important than coming down here. Craig Washington is not a flaming promotional individual. As a matter of fact, he is extremely modest, with all his great capacities and depth. It takes people like me to be honest about it and tell Craig how important he is. I think he is very important to Houston, Texas.

I tell you he is vitally important to Houston, Texas. But more than that, he is important to the United States of America. And I look forward to 2 years of having this very close special relationship.

So, Craig, thank you very much for inviting me to your district to participate in gathering a great deal of information that will aid us in the passage of very special, important legislation that is going to impact your constituents and Maxine's constituents and my constituents. We are not of the same color or background, but we are all Americans. And I want to let you close, Craig, but I tell you, I consider you one of the finest individuals I have ever had the pleasure of working with.

Mr. WASHINGTON. Thank you. Thank you, Mr. Chairman. And thank you for coming. I have learned a great deal here today about how we can make the government work better for all of its people. That ought to always be our goal. We are not perfect and our government is not perfect because it was created by us. But if we ever lose sight of the fact that it belongs to the people, then there is not much left.

This is a very important subcommittee of a very important committee in the Congress. I know that years from now, the thoughts that have been expressed by the experts here and the questions that will be submitted by the people who have concerns and want to take part in this American dream that will be submitted from the audience, will work on Maxine and Paul in the years to come.

Our ideas come from the people that we represent. We store them and we try to find a way. You just sit there and wait on the right vehicle to come along. There are a lot of good ideas, but they can always be improved upon and that is why the committee system works so well.

Each of us, as Paul has said, comes from a different point of view with a different upbringing. We bring different things with us when we come to Congress or wherever we serve, whether it is an administrative agency or wherever. We have one goal and that is to make government work better for its people. So on behalf of the citizens of the city of Houston, Mr. Chairman, and specifically of the 18th Congressional District, we welcome you to Houston; a very hospitable city.

We need lot of help in Houston and this hearing will help us focus our resources on how we can best utilize the resources of government that are available so that Austin Coleman's dream of redeveloping the third ward, which he had and has been talking about for at least 15 years, can one day become a reality for all of our people. Thank you for coming.

Chairman KANJORSKI. And with that, thank you very much for participating. And thank you to the 18th District of Texas for being so hospitable to me, the members of the panel, and to our staff. We bring this subcommittee meeting to a close. The subcommittee stands adjourned.

[Whereupon, at 12:03 p.m., the hearing was adjourned.]

## APPENDIX

February 19, 1994

Opening Statement of

**Hon. Paul E. Kanjorski, Chairman**

**Subcommittee on Economic Growth & Credit Formation**

**Committee on Banking, Finance & Urban Affairs**

**U.S. House of Representatives**

at the Field Hearing on

***Strategies for Economic Growth – The Greater Houston Region***

Saturday, February 19, 1994

Houston, Texas

Today, the House Subcommittee on Economic Growth and Credit Formation holds the seventh in its series of field hearings on credit availability and economic growth. Today's hearing is the first we have held in Texas and I would like to thank my colleague, Congressman Craig Washington, for inviting the Subcommittee to Houston to hold this hearing. I also want to thank the people of the Houston area for the warm hospitality they have shown the Subcommittee. In addition, I would like to welcome my distinguished colleague on the Banking Committee, Rep. Maxine Waters, from California's 29th Congressional District. I know we all appreciate her participation today and her interest in addressing the economic development needs of Houston and the greater Houston area.

As most of you know, the 1992 election brought major change to Washington, both in the legislative and executive branches of the federal government. Representatives Washington and Waters, first elected in 1989 and 1990 respectively, were in many ways the advance party for the freshman class elected in 1992.

Both Congressman Washington and Congresswoman Waters came to our nation's capitol with extensive experience in their state legislatures, and strong, first-hand knowledge of the problems of our nation's cities. Even more importantly, they came determined to stand up and be counted, and to make a difference in the lives of the people they represent. They are not afraid to speak out.

It is this spirit and tenacity which I admire most in my friend and colleague Craig Washington. While our districts may appear on the surface to be very different, a close

inspection reveals that each has been a victim of serious economic hardships which must be addressed. I share with Craig a strong belief that the government has both an ability, and a moral obligation, to promote economic growth so that working men and women can find jobs which pay them enough to provide food, clothing and shelter for their families.

Congressman Washington's ability to secure \$45 million in grants, loans and loan guarantees for the City of Houston and Harris County are strong evidence of his commitment to economic growth and job creation. So too, was his success in securing an amendment to the Job Training Partnership Act which allowed Harris County and the City of Houston to better coordinate their job training and educational assistance to Houston's young adults, disabled, and unemployed.

At the national level, Congressman Washington has also demonstrated creativity and persuasiveness in successfully advocating the adoption of legislation which promotes economic growth in disadvantaged communities, like much of Houston. Congressman Washington was a leader, for example, in last year's successful effort to expand the Earned Income Tax Credit to benefit the working poor. As an influential member of the powerful Energy and Commerce Committee, he also fought successfully for the passage of legislation to allow women and minorities to compete on a level playing field with large companies in the development of the "information superhighway." This will enable women, minorities and other disadvantaged groups to be at the cutting edge of emerging new technologies.

For years we have heard that American workers must retrain themselves to be more productive and competitive in the international marketplace. This is true. But few people have fully grasped the concept that retraining is not enough. There must be jobs available for workers when they are trained.

This is a reality which Congressman Washington, Congresswoman Waters, and I understand, and that is why we come to Houston today to hear directly from men and women on the front lines how the federal government can help areas like this create new jobs and new businesses.

Our witnesses today cover a broad spectrum of federal, state and local officials, business leaders and bankers, and academics. They will tell us which federal economic development programs have worked, which ones have not, how existing programs can be improved, and how we can create new programs to more effectively meet the needs of the Greater Houston Region.

The lessons we learn from them will be helpful across our nation. The advice we receive today will help us advise our colleagues in Congress on the steps we can take to expand credit availability for economic growth and job creation.

Without objection, our witnesses' prepared statements will be submitted in full for the record of the hearing. After Congressman Washington and Congresswoman Waters make their opening statements, I will ask each participant to identify themselves and then to summarize, in five minutes or less, the main points of their written statements.

**OPENING STATEMENT OF MAXINE WATERS****Strategies for Economic Growth --  
the Greater Houston Region****February 19, 1994**

Chairman Kanjorski, Congressman Washington -- it is a privilege to be in Houston for this hearing today.

The subject of this hearing is the most important issue facing hundreds of communities across America. Economic development is the only long-term solution to stop the crime, hopelessness and anger which seethe in our inner city and poor rural communities.

Yet, obstacles continue to inhibit our communities' ability to empower themselves economically. Banks redline -- recent data indicate that African-American and Latino customers are more than twice as likely to be turned down for mortgages than whites. Low-income whites are more likely to receive a loan than high-income blacks, according to information from the Federal Reserve Board. This poor record applies to consumer, small business or commercial loans as well.

Insurance redlining makes it nearly impossible for inner city entrepreneurs to obtain the insurance they need to run businesses. While the private sector has failed us, the government has turned its back as well.

Federal government cutbacks during the 1980s and early 90s disproportionately affected cities. Job training, housing assistance, community development funds and education were all cut drastically during the

Reagan-Bush years.

According to one study, over \$231 billion in aid to cities was cut in the 1980s from social programs designed to improve the lives of city residents.

The outright abandonment of our poorest communities has been well-documented. The election of President Clinton was a welcomed change to the atmosphere of hostility many public officials who represented cities felt for the past twelve years.

We now have at least a chance to begin to turn things around.

I would like to bring to light two programs which I think have great potential to invigorate economic development activities. In this period of scarce resources, there only a few new sources of funding which can help breathe economic life into poor communities.

This year, the Department of Labor will begin a new stipend-based job training program called Youth Fair Chance. This program -- which will target 17 to 30 year olds -- in the poorest sections of America, resulted from a hard fought political battle led in Congress by the Congressional Black Caucus.

What has resulted is a \$50 million a year program designed to "mainstream" young people who have dropped off America's agenda. Youth Fair Chance will enlist people in apprenticeship training, GED courses, and other job training programs. If participants remain in the program, they will receive a modest \$50 - \$100 stipend to pay for living expenses.

The Federal Register listed the request-for-proposal for Youth Fair Chance on December 22, 1993. Every large city in America with a substantial population living in poverty is eligible. The deadline for applications is March 22 -- next month.

In my home city of Los Angeles, we are piggy-backing the Youth Fair Chance program with another private sector initiative to provide stipend-based job training. The potential of this type of program is enormous. I have included information on Youth Fair Chance for people attending today's hearing. I hope it is useful.

The second program I would like to talk about is the Section 108 Loan Guarantee program. Section 108 is an offshoot of the Community Development Block Grant program. Again, the Black Caucus was instrumental in increasing this program from a little-used \$150 million per year program, into a \$2 billion per year one.

Any CDBG recipient -- that is, virtually any city or town in America -- can qualify for a Section 108 Loan. These loans from the Department of Housing and Urban Development are low-interest and can be paid back over twenty years. No collateral is required. The money can then be used immediately for commercial development projects, housing rehabilitation and other community and economic development programs.

Los Angeles is about to receive \$60 million from Section 108. This is on top of the \$80 million the city receives from CDBG. Any city getting CDBG qualifies for up to five times their CDBG allocation in

Section 108 loans. This is an enormous sum of money to begin to enhance community development - -which brings us back to the purpose of this hearing.

I know all regions are different. However, there are also many similarities. I look forward to exploring the issues of economic development in the Greater Houston area, and bringing to the forum any ideas which might assist you in that effort.

**FIVE COMMUNITY AND ECONOMIC  
DEVELOPMENT IDEAS  
FOR COMMUNITIES**

**from Maxine Waters**

1. Youth Fair Chance
2. The Section 108 Loan Guarantee Program
3. The Community Development Block Grant Program (CDBG)
4. The Crime Bill - Prevention
5. Community Development Financial Institutions

**JOB TRAINING FOR YOUTH AND YOUNG ADULTS**  
**"YOUTH FAIR CHANCE"**

Problem

Young people in our inner cities and poor rural areas cry out for opportunity. Current job training programs are not equipped to provide vital services -- or a stipend for program participants -- that could dramatically increase retention rates and thereby make a real difference in people's lives.

Legislative Proposal

Congresswoman Waters introduced H.R. 1020, the Job and Life Skills Improvement Act early in this session of Congress. In the last two months, Congress has passed, and the President has signed two bills implementing the Job and Life Skills Improvement Act, by way of authorizing and appropriating the Youth Fair Chance program, implemented by the Department of Labor.

The program enlists youth and young adults -- living in high poverty areas -- into job training, high school equivalency and apprenticeship programs. The program provides counseling, case management and life skills training to participants. Most importantly, for those who stay enrolled in the program, Youth Fair Chance provides a stipend to help pay living expenses like transportation, meals and clothing.

Status

The Youth Fair Chance program has been funded at \$50 million for this year. It is expected to receive another \$25 million next year.

This year's application deadline was March 24, 1994. Next year application can be received from your local Department of Labor office or my writing Ms. Brenda Banks, Division of Acquisition and Assistance, 200 Constitution Ave., NW, Room S-4203, Washington, D.C. 20210.

Working with the local Private Industry Councils, non-profit groups or local governments for funding under the Youth Fair Chance program. Hopefully, this program will grow in future years and serve as a model life skills program for underserved communities.

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

## Community Planning and Development

Section 108 Loan GuaranteesLEGAL AUTHORITY

Section 108 of the Housing and Community Development Act of 1974, as amended (the Act).

PURPOSE OF THE PROGRAM

Section 108 is the loan guarantee provision of the Community Development Block Grant (CDBG) program. Section 108 provides communities with an efficient source of financing for housing rehabilitation, economic development, and large scale physical development projects.

ELIGIBLE APPLICANTS AND ACTIVITIES

Eligible Applicants. Eligible applicants include the following public entities:

- (a) metropolitan cities and urban counties (i.e., entitlement recipients under the CDBG program), and
- (b) nonentitlement communities that are assisted in the submission of applications by States that administer the CDBG program.

The public entity may be the borrower or it may designate a public agency to receive the loan guarantee.

Eligible Activities. Eligible activities are (a) acquisition of real property, (b) rehabilitation of publicly owned real property, (c) housing rehabilitation eligible under the CDBG program, (d) economic development activities eligible under the CDBG program, (e) related relocation, clearance and site improvements, (f) payment of interest on the guaranteed loan and issuance costs of public offerings, and (g) debt service reserves. In addition, guaranteed loan funds may be used to finance construction of housing by nonprofit organizations when undertaken as part of a project that is also financed under the Housing Development Grants (HODAG) or Nehemiah Housing Opportunity Grants programs. For the purposes of determining eligibility, the CDBG rules and requirements apply. As with the CDBG program, all projects and activities must either principally benefit low- and moderate-income persons, or aid in the elimination or prevention of slums and blight, or meet other community development needs having a particular urgency.

Apply to: Department of Community Development  
and Economic Planning  
451 7th St., SW  
Room 7180  
~ ~ ~ ~ ~

Community Planning and Development  
Section 108 Loan Guarantees

HOW THE PROGRAM OPERATES

Maximum commitment amount. Commitments are limited as follows:

- (a) Entitlement public entities. No commitment can be made if it would cause the total outstanding guaranteed loans to exceed an amount equal to five times the public entity's latest (approved) entitlement amount.
- (b) Nonentitlement public entities. No commitment can be made if it would cause the total outstanding guaranteed loans to the public entities or other public entities assisted by the State to exceed an amount equal to five times the latest grant received by the State under the CDBG program.

Security. The principal security for the loan guarantee is a pledge by the applicant of its current and future CDBG funds. HUD may also require additional security to be furnished if it is deemed necessary. (Additional security will always be required if the repayment period exceeds 10 years; additional security requirements for other loan guarantees will be determined on a case-by-case basis.)

Repayment period. The maximum repayment period for a loan guaranteed under Section 108 is twenty years.

Financing source. Section 108 obligations are financed through underwritten public offerings. Financing between public offerings is provided through an interim lending facility established by HUD.

Default. To date, there has been no default under Section 108 resulting in a payment by HUD. In the event of default requiring a payment, HUD would continue to make payments on the loan in accordance with its terms. The source of payments by HUD pursuant to its guarantee would almost always be pledged CDBG funds. However, HUD does have borrowing authority with the Treasury if the pledged funds are insufficient.

## COMMUNITY DEVELOPMENT PROGRAMS

## Community Development Block Grant (CDBG) Program

The CDBG program was established in the Housing and Community Development Act of 1974 and provides annual grants to states and localities on a formula basis for a wide range of community development activities directed toward neighborhood revitalization, economic development, and improved community facilities and services. In developing their priorities and activities, grantees must give "maximum feasible priority" to activities that address at least one of the following program objectives: 1) benefit to low and moderate income individuals; 2) elimination or prevention of slums and blight; or 3) meet other community development needs that present a serious and immediate threat to the health or welfare of the community. In addition, over a three year period at least 70% of each recipients' funds must benefit low and moderate income persons.

Of the total appropriation provided for CDBG each year, one percent are set-aside for grants to Indian tribes; additional funds (\$60 million in FY 1993) are set-aside for special purpose grants under Section 107. The remaining appropriation is divided between the Entitlement program and the State Non-entitlement program.

Approximately 70% of CDBG funds are allocated to "entitled" cities and counties with populations in excess of 50,000. Smaller "non-entitlement" communities must compete for the remaining funds by applying to a State or, in the case of New York and Hawaii -- which have opted not to administer the program -- to HUD.

The allocation of CDBG funds to entitlement communities and to States is based on one of two formulas. Recipients receive the higher amount available under either the original formula or a second formula. The second formula was added to better reflect the needs of older urban centers.

Original formula: Poverty, 50%; Population, 25%; Overcrowded housing, 25%.

Second formula: Poverty, 30%; Population growth lag, 20%; Age of housing stock, 50%.

A wide range of physical, economic, and social development activities are eligible through the CDBG program. These include acquisition and development of real property, construction of public facilities projects, rehabilitation of housing and business properties, support of economic development activities including assistance to for-profit businesses for job creation activities, microenterprise activity and provision of public

services. The only limitations on spending decisions are a 20 percent limit on administrative expenditures and a 15 percent limit on public services expenditures.

#### Policy concerns

The CDBG Program provides significant funding for housing and community development activity. However, recent IG audits have brought to light serious management concerns. The IG has recommended that the entire program be considered a "material weakness" for purposes of the Federal Managers Financial Integrity Act (FMFIA). Some HUD staff have suggested changing the way the program is administered to an "objectives" oriented rather than "process" oriented review. The IG has suggested that the program either be converted to revenue sharing or given true sanctions to enforce statutory requirements.

Management and Monitoring. The IG contends current CDBG monitoring is ineffective and drains staff resources from other vital areas; the IG audits "have consistently found that CDBG activities do not provide benefits to low- and moderate-income residents as required." Specific areas of weakness identified by the IG include: (1) grantee performance reports; (2) interim loan financing ("float loans"); (3) economic development activities; and (4) use of program income. Note that under the Reagan administration, front-end reviews were totally eliminated; local community development programs are subject only to a post-audit review.

CDBG Formula Changes. NAHA required HUD to review existing CDBG formula criteria to determine whether they are still appropriate and to recommend any necessary changes. The 1992 Act delayed the use of 1990 census data -- except for poverty and population -- until new census data could be reviewed and properly weighted. The formula review report by HUD is due to be completed in July. The implementation of final census data will have tremendous impact on the distribution of funds under the program and will require a review of the formula.

FY93 Appropriation: \$4 billion.

#### CDBG Assistance for Colonias

NAHA requires that the States of Arizona, California, New Mexico, and Texas set aside up to 10% (as determined by the Secretary) of the amount of CDBG assistance allocated to the State for activities designed to meet the needs of the residents of colonias in the State relating to water, sewage, and housing.

#### Special Purposes Grants

A number of special programs are funded directly out of CDBG

appropriations. The 1992 Act authorized \$60 million out of CDBG for the following grants: a) \$2,000,000 for Section 107(a(G)), to the City of Bridgeport (with equal matching amounts from city and state); b) \$7,000,000 for Section 107(b(1)) for Insular areas; c) such sums for Section 107(b(2)) for CDBG formula miscalculations; d) \$6,500,000 for Section 107(b(3)) for Historically Black colleges; e) such sums for Section 107(b(4)) for State technical assistance grants; f) \$6,000,000 for Section 107(b(5)) for community-university partnerships; g) such sums for Section 107(b(6)) for economic diversification activities needed as a result of defense reductions; h) \$6,000,000 for Section 107(b(7)) for emergency assistance for Los Angeles (see Sec. 854 of the 1992 Act); i) \$3,000,000 for Section 107(c) for work study programs; j) \$7,500,000 for Section 851 of the 1992 Act, the Community Outreach Partnership Act program; k) \$15,000,000 for Title XII of the 1992 Act, the Removal of Regulatory Barriers to Affordable Housing.

#### **Section 108 Loan Guarantee Program**

This program provides Federal "full faith and credit" loan guarantees for indebtedness issued by CDBG entitlement and nonentitlement communities. The program gives these CDBG grantees access to front-end financing for community and economic development activities that are too large to be financed from annual formula grants. HUD is required to allocate 70% of the guarantees to CDBG Entitlement communities (including Indian tribes) and 30% to local governments in non-entitlement areas.

To participate, an eligible community must pledge its current and future CDBG grant allocations as security for the guarantee, and the guaranteed amount may not exceed five times the community's community development and special purposes grants. States must pledge future CDBG grant allocations as security for guaranteed obligations issued by CDBG non-entitlement communities.

HUD is prohibited from denying loan guarantees on the basis of the proposed repayment period, unless the period is more than 20 years or constitutes an unacceptable risk. Where 50% of the aggregate guarantee authority has been committed, HUD may limit annual guarantees to a single entity to \$35 million in entitlement areas and \$7 million in non-entitlement areas.

#### **Policy concerns**

The 1992 Act increased loan guarantee authority from \$300 million to \$2 billion. This increase can provide an opportunity for communities to leverage resources to undertake large community and economic development projects without an immediate increase in federal spending. On the other hand, increasing use of loan guarantees may expose the federal government to future losses or create a growing pressure on CDBG funding in future years as

CRIME PREVENTION PACKAGEBackground

The Senate passed a \$22 billion crime bill in November of last year. It established a "Violent Crime Reduction Trust Fund" which would utilize savings from federal government employee reductions to fund the crime program.

The fund would be used to finance 100,000 new police officers, build prisons - federal and state - and initiate a crime prevention program which targets youth in high poverty and high crime areas. The Senate bill contained \$1 billion for this prevention program.

The House crime bill expanded the overall price of the crime bill to \$29 billion. This was primarily because the House version expanded the prevention package to a \$7 billion program.

Crime Prevention Programs

There are two primary crime prevention programs which will be funded once the crime bill is signed into law. One is called the "Ounce of Prevention" program, the other the "Youth Employment and Skills" program the "YES" program.

The Youth Employment and Skills program could be the largest new anti-poverty program of the Clinton Administration. It targets high poverty, high crime areas, and seeks to saturate these areas with resources which will give the full range of employment and skills training, counseling and job placement services which will enable many young people to get jobs.

Status

Both the House and the Senate have passed their version of the crime bill. As mentioned above, the House version has a greatly expanded prevention piece. As soon as Congress returns, a House-Senate conference committee will begin to work out the difference between the two bills.

That process will probably take several weeks, at which point the conference agreement will be voted on by both chambers. If it passes there, which all indications are that it will, the President will sign the bill into law.

At that point, the Justice Department will begin working with the other relevant Department, such as the Labor and Housing Departments, devising program criteria, and ultimately, an application process. That is when communities must pay close attention to the Federal Register and apply for the new program.

COMMUNITY DEVELOPMENT BANKSLegislative proposal

During the presidential campaign, then-Governor Clinton promised to create 200 community development banks.

Since being elected, the Clinton Administration has been working to develop a community development banking program to fulfill his campaign promise. This year's budget contains \$60 million to begin capitalizing the new institutions.

Status

The Administration introduced legislation H.R. 2666, the Community Development Financial Institutions Act in mid-1993.

Its primary feature was to establish a fund to assist many different models of economic development. This includes community development credit unions, revolving loan funds, small community institutions, micro-enterprises, and other creative community development institutions and programs.

Both the House and the Senate have passed similar versions of the President's legislation. A conference committee has been set up to resolve the minor differences. With certainty, this bill will become law by the end of this session of Congress.

Community Involvement

Once H.R 2666 becomes law, community groups will need to follow the development of regulations and requests-for-proposal from the Treasury Department. Grants, technical assistance and capital will be awarded competitively.

National  
Association of  
Community  
Development  
Loan Funds

November 1992

**Overview**

National Association of Community Development Loan Funds (NACDLF), founded in 1986, is a national community development financial intermediary whose 42 member funds provide capital for community-based development in urban and rural communities throughout the United States. NACDLF's members manage over \$89 million in capital from individual/institutional investors and have loaned more than \$106 million, which has leveraged \$760 million in public and private capital to finance 15,000 housing units and to create 6,100 jobs for poor Americans. NACDLF members loss rate on loans is less than 1%, which is superior to most conventional financial institutions.

NACDLF member funds established the Association to develop an industry of effective community-centered financial institutions which combine social and economic justice with solid business performance. NACDLF's mission is to strengthen the performance of, to increase the capital managed by, and to build political and economic support for the community development loan fund (CDLF) industry.

Toward this end, NACDLF organizes its work around three major themes: 1) to strengthen member funds' management and lending capacity through evaluations and training; 2) to increase the capital managed by the CDLF industry through national initiatives beneficial to and beyond the capacity of member funds; and 3) to build support for democratically-controlled community development and reform of public/private credit systems through CDLF promotion, public education, policy monitoring and development.

To fulfill these purposes, NACDLF operates various evaluation, training, and financial service programs, including

- **CDLF Assessments** which are both on-site and arms-length evaluations of a member funds' organizational capacity, management systems, financial strength, and lending performance. Reviews are designed to measure a CDLF's performance against emerging industry standards. NACDLF staff, experienced fund managers, and others with relevant expertise conduct these assessments. NACDLF provides members with written critiques and the requisite technical assistance to implement recommendations which emerge from the evaluations.
- **Technical Assistance and Training** through an Annual Training Conference, regional workshops, and technical assistance publications including the upcoming *Community Development Loan Fund Operations Guide*, slated for publication in 1993.
- **Performance-based Central Fund Loans** through which NACDLF determines members' creditworthiness and makes unsecured, term loans to assist member funds' efforts to raise capital and to finance local development projects. The Central Fund is capitalized at \$3.75 million with below-market investments from the National Episcopal Church, the Funding Exchange, the Gafly Trust, and the John D. and Catherine T. MacArthur Foundation.
- **Industry Promotion and Policy Monitoring and Development** through publications which profile individual member funds and the CDLF industry as a whole, and through monitoring of legal and financial issues affecting the CDLF industry.

Through these programs and publications, NACDLF is establishing its credibility nationally as the creator and enforcer of "industry standards", an intermediary for large social investors, and the most authoritative source for information on community development loan funds' operations and evaluation.



Opening Statement  
Hon. Craig A. Washington  
Subcommittee on Economic Growth and Credit Formation  
Committee on Banking, Finance and Urban Affairs  
U.S. House of Representatives

Field Hearing on  
Strategies for Economic Growth  
The Greater Houston Region

I would like to thank my dear colleagues, Chairman Kanjorski, for his kindness, interest and concern about economic growth in our Nation in general and Houston, Texas in particular. His long-term efforts on behalf of small, medium and large businesses has not gone unrecognized by most Members of Congress -- at least, not this Member. Also, I must thank Congresswoman Maxine Waters for taking the time and effort from her hectic schedule to participate in this most important hearing today.

Later next week, the Congress will meet about crime, health care and welfare reform. As you know, I am a strong advocate of "front-end spending" -- that is, spending on those programs and strategies that cost money in the beginning, but actually save money on the "back end." Most, if not all, of our solutions to crime, health care, homelessness, and poverty all begin with one word -- jobs. More jobs enable more people to become self-sufficient and independent, less likely to engage in anti-social behavior, and contribute positively to the course of our Nation. As Congressman Kanjorski stated to the Congress, "With NAFTA's passage, we must demonstrate to working men and women across this nation that we are committed to creating significant numbers of

new jobs." All three of the Members here today voted against the North American Free Trade Agreement. We fear the loss of American jobs to other countries. We all know that the American worker can compete with any other worker in the world, if there is a level playing field. However, we are here today to say that we want, and will, do all that we can to help businesses stay in the United States, employ people at fair wages, and to help people who want to work get work.

The only way that this is going to be possible is if the Federal government, State government, and private industry work together. We have had programs that have worked in the past. We need to find out what areas of the economy we agree upon and are ready to move forward with new, innovative and aggressive plans, strategies and ideas for our Nation.

Congressman Kanjorski has been working on this front with his legislation, the Business, Commercial, and Community Development Secondary Market Act. Congresswoman Waters has her economic development package that she has most stridently pushed forward. I have been doing all that I can to ensure that the Job Training Partnership Act, the President's budget, and telecommunications include as many advantages for state and county governments, and small business, as possible. However, today, we are here to listen to the experts in the field, to view Houston, Texas as a microcosm of the Southwest region of our Nation, and to get some

answers to perhaps better guide the Congress toward a solution that will provide jobs, employment, and careers for all.

I thank Congressman Kanjorski for accepting my invitation to have a most vital hearing in the 18th Congressional District of Texas, and I welcome the testimony that we will receive today.

U. S. DEPARTMENT OF COMMERCE  
ECONOMIC DEVELOPMENT ADMINISTRATION  
TESTIMONY OF DEPUTY ASSISTANT SECRETARY  
FOR PROGRAM SUPPORT

CHESTER J. STRAUB, JR.

HOUSE BANKING, FINANCE AND URBAN AFFAIRS COMMITTEE  
SUBCOMMITTEE ON ECONOMIC GROWTH AND CREDIT FORMATION

U. S. HOUSE OF REPRESENTATIVES  
SATURDAY, FEBRUARY 19, 1993  
9:00 A.M.  
RHINEHART MUSIC AUDITORIUM  
TEXAS SOUTHERN UNIVERSITY  
CLEBURNE AND ENNIS STREETS  
HOUSTON, TEXAS

CHAIRMAN KANJORSKI, CONGRESSMAN WASHINGTON, CONGRESSWOMAN WATERS, OTHER DISTINGUISHED WITNESSES, LADIES AND GENTLEMEN, THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE THE SUBCOMMITTEE ON ECONOMIC GROWTH AND CREDIT FORMATION TODAY AS WE FOCUS ON THE PROGRAMS OF THE ECONOMIC DEVELOPMENT ADMINISTRATION (EDA) AND THE EMERGING/CHANGING ROLE OF THE AGENCY AS WE TURN TOWARDS THE 21ST CENTURY. THE ROLE OF EDA AS OUTLINED IN THE ADMINISTRATION'S FY 1995 BUDGET REQUEST AND RE-AUTHORIZATION REQUESTS REPRESENT A COMMITMENT ON THE PART OF THE ADMINISTRATION AND THE DEPARTMENT OF COMMERCE TO REVITALIZE AND RE-TOOL EDA TO MEET TRADITIONAL ECONOMIC CHALLENGES WHILE FOCUSING ON EXPANDED AUTHORITIES THAT WILL PROVIDE THE AGENCY WITH AN OPPORTUNITY TO FURTHER ASSIST OUR NATION'S DISTRESSED COMMUNITIES. IN ADDITION, THE ADMINISTRATION'S NEW PROGRAM ON EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES (EZ/EC) ESTABLISHED BY PUBLIC LAW 103-66 WILL AFFORD EDA AN OPPORTUNITY TO BE A PARTNER WITH OTHER FEDERAL AGENCIES IN A COORDINATED STRATEGY TO ASSIST COMMUNITIES NATIONWIDE. THE EZ/EC PROGRAM IS ONE MANY BELIEVE WILL EMERGE AMONG THE ADMINISTRATION'S MORE NOTABLE ACHIEVEMENTS IN REINVENTING GOVERNMENT. THE EZ/EC PROGRAM WILL STRIVE TO TAP THE ENERGY AND RESOURCES OF DISTRESSED COMMUNITIES SO THAT WE CAN, IN THE PRESIDENT'S WORDS, "REPAIR THE

AMERICAN COMMUNITY AND RESTORE THE AMERICAN FAMILY."

EDA PROVIDES GRANTS FOR PUBLIC WORKS AND DEVELOPMENT FACILITIES, PLANNING AND COORDINATION AND OTHER FINANCIAL ASSISTANCE THAT WILL HELP REDUCE SUBSTANTIAL AND PERSISTENT UNEMPLOYMENT IN ECONOMICALLY DISTRESSED AREAS. EDA PROGRAMS HAVE AND WILL CONTINUE TO PROVIDE OUR ECONOMICALLY DISTRESSED AREAS WITH OPPORTUNITIES TO MOVE THESE AREAS OF AMERICA INTO THE 21ST CENTURY THROUGH A FULL RANGE OF GRANTS AND RESEARCH, EVALUATION AND DEMONSTRATION; DEFENSE CONVERSION; AND, DISASTER FUNDS.

THE ADMINISTRATION'S FY 1995 BUDGET REQUEST INCLUDES AN INCREASE IN BUDGET AUTHORITY OF \$50 MILLION FOR ECONOMIC DEVELOPMENT GUARANTEED LOANS WHICH WILL ALLOW EDA TO GUARANTEE \$269 MILLION IN LOANS. AMERICAN COMPANIES NEED TO BE A PART OF THE GROWING EXPORT MARKET AND JOBS CREATED AS A RESULT SHOULD BE MADE AVAILABLE TO DISTRESSED AREAS. EDA WILL PROVIDE PLANNING AND TECHNICAL ASSISTANCE, ASSISTANCE TO FINANCIAL INTERMEDIARIES AND OTHER NON-PROFITS TO FACILITATE BUSINESS DEVELOPMENT AND EXPANSION; AND LOAN GUARANTEES WHICH WILL HELP LEVERAGE LIMITED FEDERAL DOLLARS THROUGH A FEDERAL GUARANTEE WITH LOCAL STATE AND NON-PROFIT ORGANIZATIONS WHICH HAVE OTHER RESERVES THAT CAN BE USED TO FACILITATE BUSINESS ACTIVITY AND DEVELOPMENT IN DISTRESSED AREAS. EDA WILL WORK WITH GOVERNMENTAL AND NOT FOR PROFIT ENTITIES TO PROVIDE ASSISTANCE THAT LEADS TO LONG-TERM JOB CREATION.

THE ADMINISTRATION'S FY 1995 BUDGET ALSO INCLUDES:

- \$32.647 MILLION IN SALARIES AND EXPENSES. THE AMOUNT REPRESENTS AN INCREASE FROM THE FY 1994 BUDGET, FOR THE PURPOSE OF STREAMLINING GRANTS ADMINISTRATION, INCREASE BUDGET, PROGRAM AND EVALUATION EFFORTS, AND UPGRADE MANAGEMENT INFORMATION SYSTEMS AND THE OFFICE OF ECONOMIC CONVERSION INFORMATION. CONCURRENTLY, EDA WILL REDUCE THE NUMBER OF PERMANENT POSITIONS BY SEVENTEEN FROM FY 1994;
- \$187.024 MILLION IN BROAD-BASED, MULTI-PURPOSE ECONOMIC ASSISTANCE, A DECREASE OF \$55.618 MILLION FROM THE FY 1994 BUDGET TO CONFORM TO THE PRESIDENT'S FY 1994 REQUEST;
- \$140.000 MILLION FOR DEFENSE ECONOMIC INVESTMENT, A \$60 MILLION INCREASE FROM THE FY 1994 BUDGET, TO ASSIST COMMUNITIES TO BEGIN PLANNING FOLLOWING THE ANNOUNCEMENT OF PROCUREMENT CUTBACKS, CLOSING OF DEPARTMENT OF ENERGY DEFENSE-RELATED

LABS, OR COMPLETION OF THE BASE CLOSURE COMMISSION'S DECISIONS, AND TO IMPLEMENT BASE REUSE PLANS.

CLOSELY ALIGNED WITH THE EDA FY 1995 BUDGET REQUEST IS REAUTHORIZATION OF EDA. OVER THE LAST TWELVE YEARS, THE AGENCY HAS BEEN THE TARGET OF ELIMINATION. AS A RESULT, THE PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT (PWEDA) OF 1965 HAS NOT BEEN AMENDED SIGNIFICANTLY SINCE 1981. IN ADDITION, THE GRANT APPLICATION SYSTEM HAS BECOME A CUMBERSOME, TIME-CONSUMING PROCESS FOR OUR CUSTOMERS. THE LEGISLATIVE PACKAGE TRANSMITTED TO CONGRESS ON FEBRUARY 2, 1994 INCLUDES A NUMBER OF TECHNICAL CHANGES AND AN ADMINISTRATION REQUEST TO REAUTHORIZE EDA ONLY THROUGH FY 1995 WHICH WILL PROVIDE THE ADMINISTRATION WITH AN OPPORTUNITY TO WORK WITH THE CONGRESS DURING FY 1995 TO REVITALIZE AND RE-TOOL EDA AS AN ECONOMIC ENGINE FOR THE FUTURE. THE EDA LEGISLATIVE PACKAGE PROPOSES TO:

- PROVIDE FOR A CONSOLIDATED AND COORDINATED SET OF PROGRAM AUTHORITIES UNDER A LIMITED NUMBER OF TITLES THAT WOULD ALLOW FOR SIMPLIFIED AND STRENGTHENED DELIVERY OF EDA PROGRAMS TO THE NATION'S ECONOMICALLY DISTRESSED OR DETERIORATING COMMUNITIES;
- INCREASE THE EMPHASIS ON PROGRAMS WHICH SUPPORT LOCAL AND STATE DEVELOPMENT AND IMPLEMENTATION OF ECONOMIC DEVELOPMENT STRATEGIES;
- RECOGNIZE THAT ECONOMICALLY DISTRESSED AREAS REQUIRE SPECIAL ATTENTION AND PROGRAMS OF SUSTAINED AND TARGETED AID TO ALLOW PRIVATE SECTOR INVESTMENT AND JOBS;
- UNIFY THE FRAMEWORK FOR ECONOMIC DEVELOPMENT AND ADJUSTMENT ASSISTANCE THAT IS BASED ON A GOVERNMENT-WIDE STRATEGIC PLAN;
- RESULT IN A MORE CUSTOMER-ORIENTED FOCUS FOR EDA BY ELIMINATING SOME CUMBERSOME REQUIREMENTS;
- FACILITATE THE AWARD OF GRANTS, PARTICULARLY TO THOSE COMMUNITIES BEING AFFECTED BY DEFENSE CUTBACKS;
- UPDATE THE PWEDA BY ELIMINATING REDUNDANT REQUIREMENTS ALREADY COVERED BY EXECUTIVE ORDERS, AND OTHER LAWS AND REGULATIONS;

- IMPROVE PROGRAM MANAGEMENT BY PROVIDING MORE FLEXIBILITY AND CREATIVITY TO DEAL WITH CHANGES THAT MAY OCCUR IN THE POST-AWARD PERIOD;
- ELIMINATE OUTDATED AND UNNEEDED STRUCTURES, SUCH AS ADVISORY COMMITTEES AND STUDY BOARDS;
- REDUCE TIME FRAMES FOR PROCESSING AND APPROVING GRANTS AND LOANS; AND,
- ENSURE EDA HAS THE AUTHORITY TO INSTITUTE A GUARANTEED LOAN PROGRAM WHICH COMPLIES WITH THE FEDERAL CREDIT REFORM ACT OF 1990.

THE EZ/EC PROGRAM IS DESIGNED TO EMPOWER PEOPLE AND COMMUNITIES ACROSS THE NATION BY PROMOTING COMMUNITY, BUSINESS AND FEDERAL GOVERNMENT PARTNERSHIPS TO CREATE JOBS AND OPPORTUNITY. NINE EZ'S AND 95 EC'S WILL BE DESIGNATED BY THE FEDERAL GOVERNMENT. COMMUNITIES WILL HAVE TO APPLY BY PREPARING CREATIVE STRATEGIC PLANS FOR REVITALIZATION AS WELL AS MEET CERTAIN POVERTY AND DISTRESS CRITERIA. KEY PRINCIPLES THAT WILL GUIDE THE APPLICATION AND SELECTION PROCESS INCLUDE ECONOMIC OPPORTUNITY, SUSTAINABLE COMMUNITY DEVELOPMENT, COMMUNITY-BASED PARTNERSHIPS AND A STRATEGIC VISION FOR CHANGE.

ON SEPTEMBER 9, 1993, PRESIDENT CLINTON SIGNED A MEMORANDUM ESTABLISHING THE PRESIDENT'S COMMUNITY ENTERPRISE BOARD (CEB), CHAIRED BY THE VICE PRESIDENT. THE CABINET-LEVEL BOARD IS RESPONSIBLE FOR OVERSEEING AND ENCOURAGING NEW INITIATIVES IN COMMUNITY EMPOWERMENT AS AUTHORIZED BY THE OMNIBUS BUDGET RECONCILIATION ACT OF 1993 (P.L. 103-66). THE BOARD HAS BEEN DIRECTED TO ENCOURAGE INNOVATIONS BY LOCAL GOVERNMENTS TO FIND WAYS TO REDUCE RED TAPE AND FEDERAL REGULATIONS. THE DEPARTMENT OF COMMERCE IS A MEMBER OF THE PRESIDENT'S COMMUNITY ENTERPRISE BOARD.

EDA IS ANALYZING ITS PROGRAMS AND LOOKING AT ITS PROJECT PORTFOLIO TO DETERMINE HOW SEVERAL INITIATIVES MIGHT BE APPLICABLE TO OVERALL STRATEGIES FOR THE EZ/EC PROGRAM. UNDER OUR TRADITIONAL PROGRAMS, EDA MIGHT SERVE URBAN AND RURAL DISTRESSED AREAS, SPECIFICALLY IN THE AREAS OF DEFERRED MAINTENANCE AND INFRASTRUCTURE. EDA COULD LAUNCH DEMONSTRATIONS THAT WOULD BE A BLEND OF PUBLIC AND PRIVATE SECTOR RESOURCES IN SUPPORT OF CAPACITY BUILDING AND BUSINESS DEVELOPMENT. EDA IS IN A POSITION TO ASSIST COMMUNITIES BY LEVERAGING STRATEGIC PLANNING BEYOND THE

EZ/EC APPLICATION. AS PART OF ITS MANDATE, EDA PROMOTES LONG-TERM ECONOMIC INITIATIVES AND AS AN AGENCY HAS SPECIALIZED EXPERTISE IN PROVIDING PUBLIC WORKS, TECHNICAL, ECONOMIC ADJUSTMENT, PLANNING AND TRADE ADJUSTMENT ASSISTANCE TO COMMUNITIES. STRATEGIC PLANNING HAS BEEN AND CONTINUES TO BE AN INTEGRAL PART OF THE EDA PROGRAM DELIVERY SYSTEM. FOR EXAMPLE, THE FIRST GRANT APPROVED FOR THE STATE OF FLORIDA AS A RESULT OF HURRICANE ANDREW WAS A STRATEGY PLANNING GRANT. IN THE MIDWEST FLOODS, EDA HAS ENSURED THAT COMMUNITIES FOCUS FIRST ON LONG-TERM ECONOMIC RECOVERY STRATEGIES.

SPECIAL ATTENTION NEEDS TO BE GIVEN TO THE ECONOMIC DEVELOPMENT NEEDS OF THOSE COMMUNITIES NOT SELECTED UNDER THE EZ/EC PROGRAM. THRESHOLD COMMUNITIES THAT WILL NEED LONG-TERM GUIDANCE AND ASSISTANCE TO ENSURE THEY CAN COMPETE IN THE 21ST CENTURY.

RURAL PRIORITIES CONSISTENT WITH APPROPRIATE LEVELS OF NEED HAVE NOT BEEN EXAMINED, ESPECIALLY ALONG THE 400 CONTIGUOUS COUNTIES WITHIN THE DEEP SOUTH -COMMUNITIES THAT COULD SIGNIFICANTLY BENEFIT FROM THE EZ/EC PROGRAM. THESE COMMUNITIES NEED THE EXPERTISE TO PACKAGE LOCAL NEEDS, EFFECTIVE LEADERSHIP, AND INFRASTRUCTURE TO EFFECTIVELY COMPLETE AND COMPETE IN THE EC/EZ PROCESS. SPECIAL POPULATIONS IN TEXAS, THE MISSISSIPPI DELTA, RURAL APPALACHIA, AND THE RURAL SOUTHWEST, NORTHEAST AND NORTHWEST ARE OF SPECIAL CONCERN.

WHILE URBAN AREAS REPRESENT A SIGNIFICANT SHARE OF THE EZ/EC DESIGNATIONS, SPECIAL DESIGNATIONS ALONE ARE NOT THE KEY TO ECONOMIC COMPETITIVENESS. EDA HAS A LONG TRACK RECORD OF INVOLVEMENT WITH DISTRESSED COMMUNITIES. EDA HAS BEEN THERE IN SITUATIONS OF ECONOMIC DISTRESS WHETHER IT BE AS A RESULT OF NATURAL DISASTERS, SUCH AS THE EARTHQUAKES IN CALIFORNIA, OR DEFENSE CONVERSION AS A RESULT OF DOWNSIZING, OR SOCIAL DISORDER IN THE FORM OF RIOTS, OR LOSS OF MAJOR INDUSTRIES.

AS A FEDERAL AGENCY EDA IS UNIQUE BECAUSE IT HAS A COMPLEMENT OF ECONOMIC DEVELOPMENT REPRESENTATIVES WHO WORK IN PARTNERSHIP WITH LOCAL UNITS OF GOVERNMENT, NON-PROFITS AND PLANNING AND DEVELOPMENT DISTRICTS. EDA HAS TO OFFER ITS EXTENSIVE NETWORK OF UNIVERSITY CENTERS WHICH CAN BRING ACADEMIA AND THE PRIVATE SECTOR TO THE TABLE AS PARTNERS.

EDA CAN DO MORE BEYOND ASSISTING SELECTED AREAS DEVELOP SUSTAINABLE GROWTH THROUGH SELECTED PROGRAMS. EDA COULD TARGET

RESOURCES TO BUSINESS START-UPS THAT CAN EXPAND HIGH QUALITY, COMPETITIVE EMPLOYMENT, ESPECIALLY IN THE HIGH TECHNOLOGY AREA.

MR. CHAIRMAN, IN CLOSING WE HAVE A UNIQUE OPPORTUNITY TO CHANGE THE ECONOMIC FIBER OF DISTRESSED COMMUNITIES NATIONWIDE. EDA THROUGH ITS FULL-RANGE OF PROGRAMS CAN PROVIDE OUR COMMUNITIES WITH THE GUIDANCE THEY NEED TO ENSURE OUR NATION CAN COMPETE IN GLOBAL MARKETS. EDA HAS PROVEN TO BE A FLEXIBLE AGENCY. WE ARE WORKING DILIGENTLY TO MAKE THE AGENCY ONE OF THE MOST RELIABLE CUSTOMER-FOCUSED FEDERAL GOVERNMENT ENTITIES. THANK YOU, MR. CHAIRMAN.

**U.S. SMALL BUSINESS ADMINISTRATION  
REGION VI  
8625 KING GEORGE DRIVE, BLDG. C  
DALLAS, TEXAS 75235-3391**

**Mr. Chairman, my name is Till Phillips, Acting Regional Administrator of Region VI of SBA, the United States Small Business Administration. I am here representing SBA Administrator Erskine Bowles and I am honored to join you here today to discuss SBA credit strategies and SBA resources in the Greater Houston Area. I am especially pleased to appear in the Honorable Craig Washington's 18th Congressional District.**

**Serving 32 counties in Southeast Texas with a population of almost 5,000,000 persons, the Houston District Office of the Small Business Administration makes a significant impact on the economy of this area and plays a key role in the minority and women's business communities.**

**The Houston District Office has been rated the Number One SBA office in the nation in market penetration. That means the Houston Office has achieved financing for the highest percentage of small business in its district. This is an outstanding accomplishment of the district office and its dedicated staff.**

**The effectiveness of the Houston SBA Office is based on creative credit strategies, broad outreach to the under served, and diverse resources.**

**CREDIT STRATEGIES**

**In terms of lending and credit, we at SBA feel the Houston District offers a wide range of financial opportunity for a very diverse population. Our annual loan guarantee approvals, which have increased in the last four years from 320 to 710, provide an investment of \$192,000,000 and approximately 17,000 jobs saved or retained last year. The bulk of this lending effort is through our 7(a) Guaranteed Program which worked through approximately 120 lenders last year. This lending strategy has involved:**

**Quality Circle Meetings. Lenders meet in an intense 3 hour instructional session with SBA staff. (Over 95 such meetings were conducted during the past 3 years.) The solid relationships that are developed in these meetings between the loan officers of both organizations have been an essential factor in the 91% loan guarantee approval rate achieved by the Houston District Office.**

**Electronic loans. Houston was the first SBA office to receive loans electronically. We know this is the wave of the future and we feel we can double or even triple our loan volume through this medium.**

**Certified lenders.** Houston has 34 lenders that are identified as "certified". That rating is achieved when we receive a number of loans from a lender and we're satisfied that lender will submit quality loans. This strategy of expecting certified lenders to submit loans that are representative of their area is beginning to work quite effectively, with the result that Houston leads the nation in African American loans, ranks third in Asian loans, and is 6th in the country in Hispanic loans.

**Low documentation loans.** Governor Ann Richards announced to the Texas Chamber of Commerce last month, thanks in part to her efforts and Administrator Bowles bold initiative, a new loan program was implemented by SBA in Texas. It involves a one page application for business loans under \$100,000. We are pleased with the initial results and can tell you that Houston is leading all districts participating in this pilot program, with some 105 loans made since November. In Houston, 45% of these loans have gone to women and minorities.

**Certified Development Companies (CDC).** CDC's prepare and submit loan applications to the SBA under the "504" loan program. If the loan is approved they issue a debenture similar to a bond. This debenture is 100% guaranteed by SBA, and is sold publicly to investors in order to produce a portion of the project cost. This program is designed to meet long term credit needs of small business for fixed asset financing that results in community economic development by retaining or creating jobs. Statewide coverage was initiated by Governor Richards through the Texas Department of Commerce. In the Houston Office last year there were nine (9) "504" loans, totaling \$7,000,000, which created an estimated 150 jobs.

#### OUTREACH

**Minority loans and contracts.** In the area of the under served, last year minority business received some 35% of all Houston SBA loans. In addition, our 8(a) program is designed to assist businesses owned by socially and economically disadvantaged persons obtain government contracts and other assistance. Currently this program has 134 firms certified. Last year these firms were awarded over \$36 million in contracts and modifications. This created or maintained over 1,000 jobs.

**Networking.** About 2 1/2 years ago the Houston District Office was instrumental in starting a Minority Business Procurement Breakfast, which provides an excellent opportunity for women and minority owned firms to network and meet representatives of major corporations, civic organizations, chambers of commerce, schools, banks, and federal, state and local government. This outreach effort generates more interest every month. Last year it led to approximately \$75 million in contracts.

**TEXCAL.** Another innovative effort by the Houston District Office, TEXCAL, is designed to provide short-term credit to small, historically under utilized businesses. This program is a demonstration of cooperation between the State of Texas and the SBA Houston District Office. If one of these firms is awarded a state bid or a state contract it will be eligible for SBA guaranteed financing through its own bank.

**HUD Sub-contracts.** The Houston District Office is pioneering an 8(a) program with HUD whereby socially and economically disadvantaged individuals living in HUD-supported communities will obtain sub-contract work from SBA 8(a) contractors awarded HUD contracts through the 8(a) program. Through this relationship these individuals will gain employment and on-the-job training and will potentially become SBA 8(a) contractors. A Memorandum of Understanding between HUD and SBA is currently being revised to make this effort a reality.

## RESOURCES

A great variety of training and counseling is available with SBA funded assistance in the Houston District. Last year some 23,000 persons received some form of training or counseling through the following resources.

**Service Corps of Retired Executives (SCORE).** SCORE serves the small business community by offering counseling and training by volunteers through various methods. Its Houston seminar, "The Basics of Operating a Small Business", is considered one of the most outstanding volunteer conducted workshops in the country. Thanks to local contributions and federal resources generated by the Houston District Advisory Council, the Houston SBA Office became the home of a Business Information Center (BIC), one of only five in the country. This is a state-of-the-art resource center providing computer work stations, CD-ROM libraries, video and audio cassette libraries, on site counseling services, a national SBA computerized bulletin board and a specialized business library – all free for those who want to establish a business or expand it. Houston's BIC has received good participation from the women and minority communities. The Houston SCORE Chapter operates the BIC jointly with SBA. In recognition of its service to the community the Houston SCORE chapter was recently named the Number One outstanding SCORE Chapter in the USA. It is estimated that SCORE saves the Federal Government over \$1 million a year in the Houston District by the many services it offers such as answering thousands of SBA calls and inquiries, counseling many towards financial assistance and offering a specialized group of several volunteers called a Smart Team (Specialized Management Assistance Review Team) to meet with individual businesses having problems.

**University of Houston Small Business Development Center (UHSBDC).** This center has 15 subcenters in the Houston District. It provides specialized assistance in business consulting, management training, instruction concerning international markets, assistance in accessing government contract opportunities and guidance in commercializing new products or services.

**Small Business Institute.** This is a program of eight universities in the Houston District. They have upper level business students work for course credit on particular problems such as marketing, management, and production. This year Houston has 115 of these projects that give students real life business experience. The client receives the study free of charge.

**The Center for Women Business Enterprise (CWBE).** The Center offers training courses and individual consulting to women who are starting or expanding their business. Last year the Center served 743 women, assisted 47 in starting new businesses, and helped 73 expand their operations. These businesses created 120 direct or indirect jobs and retained 87. Forty seven (47) women qualified for city or state contracts and \$1.4 million in loans were packaged. The average loan was \$50,000.

**Available financing.** The Houston District Office has cooperated with two organizations providing financing. One is the Greater Houston Small Business Equity Fund, Inc., which provides short and long term debt and equity financing for small businesses. The other is MESBIC Financial Corporation of Houston, which provides long term debt and equity financing for minority and women-owned small businesses. Both serve the Greater Houston metropolitan area and surrounding communities.

In conclusion Mr. Chairman, I would like to thank you for giving me the opportunity to make this presentation to your distinguished committee and guests.

TEXAS  
PRESS CLIPPING BUREAU  
DALLAS  
Established 1910  
Waco, TX  
Waco Citizen  
(Cr. W. 1,912)

11 Feb 1994

*AHS*  
**Business information center gets \$10,000 grant**

Erin Jones, Southwestern Bell area manager, and Curtis Cleveland, President, of the Business Resource Board of Directors announced the award of a grant from Southwestern Bell Foundation in the amount of \$10,000 for the establishment of the Heart of Texas Business Information Center.

The BIC will aid in the economic development of new and existing businesses in a six county area.

The area consists of McLennan County, Bell County, Bosque County, Coryell County, Falls County, and Hill County.

The purpose of the grant is to assist all business owners in having access to computers that have data base materials, information and references sources, to provide businesses assistance in developing business

plans via computers, and, finally, access to publications via bulletin boards.

The Business Information Center will be located in the Business Resource Center, 4601 N. 19th, Waco. The Business Resource Center will coordinate and provide the technical assistance required to operate and promote the BIC program.

The scheduled opening date for the BIC program is Mar. 15, 1994. The McLennan Community College Small Business Development Center counselors and the 25 volunteer counselors of SCORE Chapter 341 will also assist in the delivery of the BIC program.

Call Lu Billings, executive director, for further information (817) 754-8898.

February 19, 1994  
Texas Southern University  
Rhinehart Music Auditorium

Good morning. To the honorable members of Congress and the various public and private sector representatives participating in today's hearing, and to the general public, I'd like to thank Congressman Washington for inviting the Texas Department of Commerce to participate in today's hearing before the Economic Growth and Credit Formation Subcommittee of the U.S. House of Representatives' Committee on Banking, Finance and Urban Affairs.

My name is Winsome Jean and I am the Director of Economic Transition for the Texas Department of Commerce. I'm here today to provide the Subcommittee with testimony on what changes federal agencies can make to meet the economic growth and credit formation needs of small business, especially here in Houston and in Texas.

Throughout my fifteen year tenure in banking and public finance, I've had the privilege to work with a number of federal agencies that provide financial services to small businesses. Generally these agencies do a good job and are committed to the mission, but the bureaucratic nature of most government offices hampers progress. Streamlining of redundant rules and excessive paperwork is necessary.

The Low Documentation Loan Program being piloted in the San Antonio Small Business Administration District Office is an excellent example of what can be done to improve efficiency of program goals. Banks are encouraged to increase their SBA loan portfolio, because the change in documentation makes it less costly to book an SBA loan. The bottom line is, more jobs are being created because more small businesses are receiving loans.

The Texas Department of Commerce functions as the lead economic development agency for the State of Texas. It's general mission, as mandated by state law, is to retain and expand the state's existing business and industrial base while marketing Texas nationally and internationally as an ideal spot for locating or expanding a company. To match economic development goals with work force goals, the agency is also mandated to administer federally-funded job training programs statewide. Commerce fosters partnerships with public and private sector entities throughout the state to accomplish its mission.

Gone are the days when cattle and cotton were king. Today, Texas' industrial base is as diverse as its population. The state's economic strength no longer depends on one booming business, but on its ability to compete in a global marketplace. Due to its economic and demographic diversity, Houston is uniquely positioned to reap enormous benefits from this global expansion.

At the request of Governor Ann W. Richards, the Texas Department of Commerce recently lead a statewide effort, in cooperation with the State Regional Councils, to develop a "Regional Prosperity Plan" for each of the state's 10 economic regions. The goal is to have a strategic economic development plan for each region by the end of Spring 1994. The plans will assist public and private agencies in determining regional priorities to create jobs and economic prosperity for all Texans.

On January 19th and 20th, the Houston-Galveston Area Council of Governments coordinated a regional prosperity planning workshop at its Houston office. An audience of approximately 100 individuals from the public and private sector gave input on the trends that affect economic development goals and on the priorities of the Gulf Coast Region. I'd like to share some of the results that are related to the subject matter of today's meeting.

Lack of private sector financing and governmental control and intervention were seen as two of the key detriments to economic development. The group rated NAFTA, a strong trend to diversification which is continuing, and the strengthening of aqua-agriculture as clear opportunities for economic development.

The workshop participants also outlined eight goals to achieve economic prosperity. One of them was "development of an overall condition whereas small businesses throughout the region have access to capital and technical assistance with special opportunities for ethnic minorities, women-owned businesses, and access to procurement contracts."

Lack of capital for small business, is it a myth or is it real? It depends on who you talk to. One of my first missions when moving to the Governor's Office under the new administration of Governor Richards, was to form a public/private committee to address the capital access problem for small business.

My background before moving to state government was in banking. I was an investment officer and internal auditor for Capital Bank in Houston, which was part of the Mercantile Holding Company which merged with Bank of the Southwest to become M Bank which was eventually purchased by Bank One. So I am keenly aware of the structural metamorphosis banks in Texas have gone through in the last decade due to the overexposure in oil and gas loans and later real-estate loans. Luckily we're past all that and are in recovery, but banks are still gun-shy.

In 1991 the committee generated a survey to local economic development entities that pointed to a lack of access to capital for small business, especially venture capital and start-up capital. The committee also found banks to be awash with liquidity. But due to the understandable reluctance of bankers to assume all of the risks associated with loans to small and medium-sized businesses, the committee felt it to be essential that the public sector work with the private sector to bridge the financing gap. Unfortunately, even when banks make loans to small business, they don't always match the maturity needs of small business owners.

Banks are risk-minimizers and shorter maturities reduce various types of risks, such as credit risk, collateral risk, maturity risk, and interest rate risk. In addition, short term loans are more profitable because banks can generate more fee income due the frequency of roll-overs. Regulations also act as a disincentive. Since a significant portion of bank deposits are on demand, banks are criticized by regulators if the maturities of their sources of funds, in the form of deposits, and their uses of funds, in the form of loans, are not properly matched.

This poses several problems for the average small business. Not only is there insufficient access to capital, but when there is access it is not always efficient. Acquisitions and upgrading of plants and equipment require long term working capital. We need to put significant energy in

reviewing ways to stimulate private sector investment so more long term capital is available. Incentives such as tax relief for the investor should be seriously considered.

Due to my eight year experience as the Chief Investment Officer for Texas State Treasurer Ann W. Richards, I know the federal government has an active and highly liquid debt-issuance program. State and local governments buy billions and billions of federal debt instruments for their investment portfolios. Because of the federal government's easy access to capital markets, a federal debt securities program could be designed to meet the working capital needs of small business.

Currently the Texas Department of Commerce administers a number of finance programs for small business. I'd like to describe two of the more recently created programs because they are good examples of public-private collaboration. The State of Texas Historically Underutilized Business and Small Business Linked Deposit Program is utilized when the State Treasury places deposits that earn below market rates in banks that grant loans under the program. A special project, the State of Texas and the Small Business Administration Contract Assignment Lending Project (TEXCAL) was designed to promote the utilization of state contract assignments to qualified, small and/or historically underutilized businesses. TEXCAL is a pilot program targeting HUBS located in the Houston SBA District.

These are the kinds of public-private partnerships that should be encouraged by the federal government. Federal agencies, such as the Small Business Administration and the Economic Development Administration should be given more flexibility to customize finance programs on a pilot basis that cater to the particular situations of the local environment. If the pilot is success then the program can be expanded. For example, if all parties agree and market studies strongly suggest that aqua-agriculture, as I discussed earlier, is an emerging market in the Houston area and should be encouraged to expand, federal agencies should be able to work with local and state officials and the private sector to tailor finance programs for targeted markets.

The EDA Loan Revolving Fund for defense companies recently created in St. Louis, Missouri is a good example of tailoring to local needs. However, I want to point out that EDA should review its fixed asset loan standard since working capital loans are in more demand by small business.

In Texas, especially Houston, I can speak to two key areas where finance assistance for small business is needed, defense conversion and trade finance. Dependence on defense contracts is not as apparent in Houston as it is in other parts of the state such as Fort Worth and Dallas. But according to a 1992 report by the Governor's Taskforce on Economic Transition, nearly 10% of the 3800 defense sub-contractors in Texas, identified by the state's top ten primary defense contractors, are located in Harris County.

For small defense companies seeking to move into commercial markets, the financing dilemma is even more severe. There seems to be a reluctance on the part of many bankers to provide capital to these companies because of the perception that they are in a twiddling markets. Small defense companies are especially vulnerable because they survive from the progress payments received from the Department of Defense. Such payments do not exist in the

commercial market.

I agree with the research of BENS, Business Executives for National Security, which recommends the creation of a fund for defense conversion to enhance the availability of working capital for small and medium-sized defense firms.

Although there are negative consequences to down-sizing, ultimately, defense transition must be viewed in terms of the opportunities it presents to retool the manufacturing base of the state and of the nation. If you think about it, these companies have built the best products in the world. Products that must perform under extreme circumstances with pinpoint accuracy. They have what it takes to build the best commercial products in the world. But they can't do it without capital.

There is a strong correlation between successful technology commercializations and the availability of venture capital. Hopefully, the BENS fund concept will address the need for working capital loans and venture capital loans. Both are necessary in the successful technology and business transition from defense production to commercial production.

A second priority area is in trade finance. Since 1987, Texas exports to Mexico have increased by 124%. This represents hundreds of thousands of new jobs created or retained.

The U.S. Export Import Bank's average working capital loan is in the neighborhood of \$1.8 million. This high average suggests the agency is not making a considerable amount of loans to smaller businesses. The Small Business Administration is not as aggressive as it should and could be in financing export transactions. This leaves a serious gap for the average small business that needs capital to export. It is imperative that the federal government take a serious look at this deficiency if we are to be competitive in the global marketplace. Both agencies should work together to service the export finance needs of small business.

In addition, the Economic Development Administration (EDA) could more aggressively utilize its grant authority to promote programs that provide for the technical assistance, training, and marketing of small business exporters.

The Texas Department of Commerce is excited about the opportunities NAFTA brings to the state. We see especially wonderful opportunities for small business expansion if they are prepared. To assist them with this global expansion, Commerce is working with local organizations to sponsor a "Doing business in Mexico" seminar for historically underutilized businesses on this same college campus in the School of Technology on March 19. It will provide HUBS with an opportunity to receive valuable information on the steps involved in trading with Mexico. Information will also be available on hot products and services in the Mexican market and match-making services available to small business. Based on the interest, the seminar will be followed by a trade mission to Mexico for HUBS.

Other areas of need are in venture and start-up capital and micro-loans. The Southwest does have venture capital availability which is the envy of other areas of the country, such as the Southeast, but with the demise of oil and gas and real estate speculation, the volume has

decreased considerably.

The Houston SBA District does not have a micro-loan program as does other districts. I seriously recommend to this Subcommittee that a micro-loan program be implemented in the Houston District. Due to the volume of small businesses, especially minority and women-owned, and the excellent track record of the Houston District, I'm sure it will quickly become one of the SBA's most successful micro-loan programs.

In summary, the state of Texas, which includes Houston, is in a transition. A transition from a one-industry dependent state, to a diversified industrial base with a highly skilled labor force and the ability to compete in a global marketplace. Federal agencies can help in this transition by working in partnership with the private sector and the public sector to take steps that provide our small businesses with access to capital that help to create and retain jobs. The key priority areas are in defense conversion and trade finance. Venture capital and micro-lending also play a role. With less bureaucracy and more flexibility that caters to the special needs of our local areas, federal agencies can play a key role in providing for the economic prosperity of Houston, the state of Texas, and the nation.

It has been my pleasure to address the honorable members of this Subcommittee.



## TESTIMONY OF

Bruce A. Austin  
Director  
Harris County Community Development Agency

Before the Subcommittee on Economic Growth & Credit Formation  
Committee on Banking, Finance & Urban Affairs  
U.S. House of Representatives

Mr. Chairman and Congresswomen Maxine Waters and Congressman Craig Washington, on behalf of the Commissioners Court and the citizens of Harris County we thank you for taking time from your schedule to address the issue of economic development in our community. I would like especially to thank Congressman Washington for his continued support for economic development within this region.

The Harris County Community Development Agency (HCCDA), through the Corporation for Economic Development of Harris County, fosters the creation and expansion of small business and industry in Harris County. The Corporation's primary service is the administration of a small business revolving loan program. The program grants loans to small businesses that would otherwise not qualify under the normal underwriting procedures of a financial institution. In exchange for the loan, the small business must fill at least 51 percent of the jobs created or retained with low-or-moderate income persons. The revolving loan program includes commercial building improvement loans, real property and fixed asset loan guarantees, and the Small Business Administration 504 Program loan injections.

The Greater Houston area has the opportunity to lead the nation in accomplishing the real objectives of economic development and that is to enhance job creation, wealth creation and increase the tax base. The government alone cannot change self-esteem, or alone transform the income levels of poor citizens, nor force citizens to pull themselves out of poverty to self-sufficiency. It is important that we have this committee chose to meet at a university. Alan S. Gregerman in his article Rekindling the Future reminds that a local information base is essential the economic development by supporting targeted new venture development. In addition, such ongoing education teaches basic skills such as business planning, small business management, marketing and selling, operations, staffing, finance, and managing growth. Another component should provide specialized technical

information and training on subjects ranging from new technologies to exporting, procurement, and building strategic partnerships. Many communities have set up small business information resource centers, including on-line access to appropriate databases. These centers can be housed at the local college or library and staffed by entrepreneurial information "brokers."

The bottom line is the need for manytimes great business ideas to find the necessary financial backing. What can we do? We can:

- Increase the number of federal, state and local government contracts that go to small and disadvantaged businesses to stimulate business development in distressed communities..
- Link employment, training, and economic development programs in state & federal designated enterprise zones. Faciliate federal and state tax-financing on a comprehensive scale to small manufacturing and high tech industries.
- Establish development banks to reinvest private dollars in distressed areas of this Greater Houston Area.
- Bank CRA and Foundation support for local Community Colleges and University incubators to stimulate innovative approaches to business development.
- Greater Federal and state support for research and development to promote advanced technology development.
- Establish a joint Harris County/City of Houston demonstration to provide equity and term financing to businesses capitalized by local corporations.
- Create a Job Skills Cabinet to improve on coordinating employment, training, and economic development assistance. [government, business, and civic organizations from area come together to cooperate in their training and employment efforts]
- Establish matrix of Community Block Grants for economic development projects with federal and state employment training, and growth-management programs. (linking EDA, SBA, HUD, DOT, DOS and other federal departments)

We will most definitely be influenced by our either building a sound economic foundation or one which allows the underclass to grow unabated with all the associated negative influences that accompanies the existing mushrooming underclass population.

There is a direct correlation between small and disadvantaged business development and job creation. Such, independent and locally owned businesses and industry have

historically provided a foundation for community stability, a value which is becoming more important as we address the mammoth social and economic challenges related to a fluctuating economy, rising unemployment, literacy decline and a unprecedented crime increase.

We can no longer afford to manage government by traditional methods -- we must become innovative and lead our area economic policies by motivating, stimulating and promoting a strong and progressive Greater Houston Area.

Essentially, economic goals cannot be dissociated from other area goals, because economic pursuits are not ends in themselves, but means to provide the necessities of life and the opportunity for personal and civic development. An economic vision should be part of a broader vision that encompasses the personal, family, cultural, environmental, civic, and spiritual dimensions of our citizens -- people seeking to be as great as they are capable of being.

We have traditionally relied heavily on natural resources to finance government and now government is discovering that squeezed budgets make it difficult to sustain the public services required to support economic activity and to facilitate the transition to new, more diverse industries.

The government can and should take some responsibility for stimulating, promoting and encouraging the positive economic growth of communities. The government benefits from such efforts because economically secure people tend to be more productive. Productive workforces enhance successful economic growth. There is less crime in productive neighborhoods. The need for governmental solutions to problems lessens in productive communities. Communities of low income are not automatically places that are without people who respect each other or lack people who pass down positive self esteem and values to their children. Yet, crime and other socially dysfunctional behavior does exist and the outcome can infect a community to the point of deterioration.

Physical Infrastructure is very important, for it is often the base on which enterprise development must be built. In the long term, it appears that Congress' desire, as it is ours, is to enhance the local economic growth, thus stimualting the nation's economy. Such dynamic growth should well serve as impetus for continued and sustained economic viability of local communities and emerging industries within the area, thereby dramatically transforming depressed communities into oases of production.

By employing *matrix management planning* (surgical team approach) in our economic strategy, comprehensive approaches to federal, state and local government development activities could be realized. For instance, when Federal, State and Local governments link with foundations, colleges & universities, public authorities, not-for-profit institutions and community groups, there is a unique mix of expertise that can be applied to the policy-making process targeted at particular economic problems facing urban populations.

Admittedly, the focus of this approach and of these cooperative relationships is guided toward results and not process.

*Other Possibilities of our Greater Houston Area:*

- Export Promotion via Port Development Corporation, et al. (Increase Mobilization Posture in Gulf of Mexico - National Defense Related - Bifurcated function);
- Financial Incentives to foster Business-Industrial Incubator Assistance;
- Micro-loans provided to businesses in distressed areas to help those enterprises adapt to standard lending practices;
- Create several local community-based development organizations, using federal & state funds to leverage equity investments by local banks;
- Federal and state would make tax-exempt financing available to small manufacturing businesses and keep origination costs down by pooling issuances;
- CRA fund offering a secondary market for loans made by community-based development organizations;
- Development Banks and CRA and Block Grant support for local Community Colleges and University incubators for innovative approaches to business development;
- Employment Training and JTPA - Jobs Training Partnership Act, HUD Youth Build, Dislocated worker - meld traditional welfare programs with self-sufficiency orientation. JTPA/Private Sector, linkage with Colleges and Universities, Tech-Prep;
- Support College/University developed strength in key areas of research, e.g. Biotechnology, High Technology, etc.;
- Develop University Research and Centers of Applied Research in areas critical to area industries; and
- Support linkages among existing research centers and business, or creation of new institutions and promotion of new technologies.



February 18, 1994

Mr. Paul E. Kanjorski  
Chairman  
Subcommittee on Economic Growth  
and Credit Formation  
109 Ford House Office Building  
Washington, DC 20515-6054

Re: "Strategies For Economic Growth"

Dear Mr. Kanjorski:

Please accept the following comments as written testimony relative to the U. S. House of Representatives' Subcommittee on Economic Growth and Credit Formation.

As Director of Houston's Housing and Community Development Department, responsible for overseeing and administering the Housing and Urban Development (HUD) Community Development Block Grant (CDBG) entitlement of approximately \$30 million dollars, economic development and community development within Houston's disadvantaged communities is of major concern. Many of the social-economic ills (crime, drug addiction, teenage pregnancy, unemployment, etc.), that plague our nation's urban areas, including Houston, the 4th largest city in the country, stem directly from the lack of economic development vehicles and resources that provide citizens of such communities with meaningful opportunities for employment, education, and involvement. Certainly, the Clinton Administration and Congress have made several strides aimed at fostering economic development, particularly in urban areas, with the proposed Empowerment Zones, Community Development Financial Institutions Act, Community Reinvestment Act Reform, an enhanced Commerce Department budget (up 34% for fiscal year 1995); and the development of a series of new economic development programs proposed under the Economic Development Administration (EDA), the Small Business Administration (SBA) and the Housing and Urban Development Department.

The effectiveness of the proposed programs will, of course, be measured by their capacity to stimulate economic development while at the same time alleviating problems such as those already mentioned. Moreover, while we have had the benefit of EDA, SBA and HUD programs for several years now, often the programs that have been developed are broad in their focus and tend to be cumbersome relative to compliance requirements. While programs like the SBA's new green line and low documentation programs are encouraging steps in the right direction, I would also suggest that the Subcommittee give further consideration to the following:

*Stimulating Growth • Revitalizing Communities*

Business Technology Center, 5330 Griggs Road, Houston, Texas 77021 • Fax. 713 641-3853 • 713 845-2400

**SMALL BUSINESS ADMINISTRATION**

- o While Houston is our nation's 4th largest city, we are unable to establish an SBA-Micro Loan Program, due to what I'm told involves SBA Budget constraints. A large percent of inquiries and applicants we receive through the Houston Small Business Development Corporation are from start-up, micro enterprises that we are unable to assist. Establishment of an SBA Micro Loan Program in fiscal year 1995 would enhance our existing loan program and enable us to better meet the needs of our communities.
- o The development of loan programs specifically tailored to small and minority businesses with revenues less than \$5 million will more accurately reflect the need in disadvantaged communities.

**ECONOMIC DEVELOPMENT ADMINISTRATION**

- o Management and technical assistance grants to community development corporations and non-profit corporations like the Houston Small Business Development Corporation, are needed to increase the business acumen and knowledge of small and minority business owners, and to teach youth entrepreneurial skills.
- o Public Works Grants for inner city development projects can aid programs like HUD's LIFT and help stimulate private sector investment. In addition, EDA Revolving Loan Funds and Guarantee Programs should be developed to compliment the SBA's existing programs.

**HOUSING AND URBAN DEVELOPMENT**

- o Current regulations governing economic development projects have job creation and monitoring requirements that are stifling. Certain economic development activities that promote entrepreneurship and enhance management skills will not immediately, nor directly, result in job creation, but are nonetheless an integral component to stimulating growth. Such activities should not require job creation compliance. In addition, business owners and employees are subjected to job creation compliance measures that are often too cumbersome. As a result, participation in CDBG Funded Economic Development Programs is hampered. When the nature of the employment is obviously going to generate a low income position (i.e., Clerk, Stocker, Waiter, etc.) job creation monitoring requirements should be reduced if not eliminated.
- o Grant allocations for capacity building to non-profit corporations engaged in community development should be used to stimulate growth from within disadvantaged communities.

**CRA REFORM AND COMMUNITY DEVELOPMENT INSTITUTIONS**

- o Commercial lending institutions' ambivalence toward disadvantaged and minority communities has propelled the proliferation of a new wave of lending institutions: Pawn Shops and Check Cashiers that charge exorbitant rates to those least able to afford it. CRA Reform must address performance rather than public relations. New products and services that take into consideration the extenuating circumstances of low income communities and ethnic minorities, must be developed to meet the credit needs of consumers and business owners. Branch banks are needed in inner cities, however, only if lending policies will mirror the population being served.
- o Banks should be given incentives to support and work with community development corporations and enhancement vehicles that already serve the needs of low income communities. Capital injections from the private sector coupled with assistance from the Community Development Financial Institutions Act can enable these non bank financial institutions to better meet the needs of communities they serve.

I look forward to discussing the aforementioned in greater detail during the actual hearing to be held on Saturday, February 19, 1994. Please contact me at (713) 868-8305, if I can be of further assistance.

Margie Bingham  
Director  
City of Houston  
Housing & Community Development Department  
601 Sawyer, 4th Floor  
Houston, Texas 77007

**Houston Galveston Area Council**

PO Box 22777 • 3555 Timmons • Houston, Texas 77227-2777 • 713/627-3200

Testimony of  
Jeff Taebel  
Manager, Community and Environmental Planning Department  
Houston-Galveston Area Council

presented to:

**U.S. House of Representatives  
Subcommittee on Economic Growth and Credit Formation  
February 19, 1994**

I would like to thank Congressman Craig Washington and the U.S. House of Representatives Subcommittee on Economic Growth and Credit Formation for the opportunity to be here today and discuss with you our thoughts on economic development and credit needs in our 13-county region (see attached map).

The Houston-Galveston Area Council (H-GAC) is a voluntary association of governments on the upper Texas Gulf Coast. We have 150 member governments with a total population of 3.9 million people. H-GAC has been involved in regional economic development efforts since its inception in 1966. During the 1980's, we assumed responsibility for the regional service delivery of programs of the Economic Development Administration and Small Business Administration.

H-GAC staffs and provides funding support for the Gulf Coast Economic Development District (GCEDD), which qualifies cities and counties in the HGAC apply for and receive EDA public works, planning and technical assistance grants. H-GAC also operates the Gulf Coast Small Business Finance Corporation, which serves as an SBA Certified Development Corporation to which administers the "504" fixed assets loan program.

I would like to publicly commend and thank Mr. Henry Troell, Regional Director of the EDA, Austin Office and Mr. Milton Wilson, Regional Director of the SBA, Houston Office for their commitment to these organizations and to building regional partnerships for economic development.

My comments to you today are focus primarily on how we believe EDA and SBA programs can more effectively meet job creation and credit needs in our communities.

*1. Revise the local matching requirements for the EDA Revolving Loan Fund*

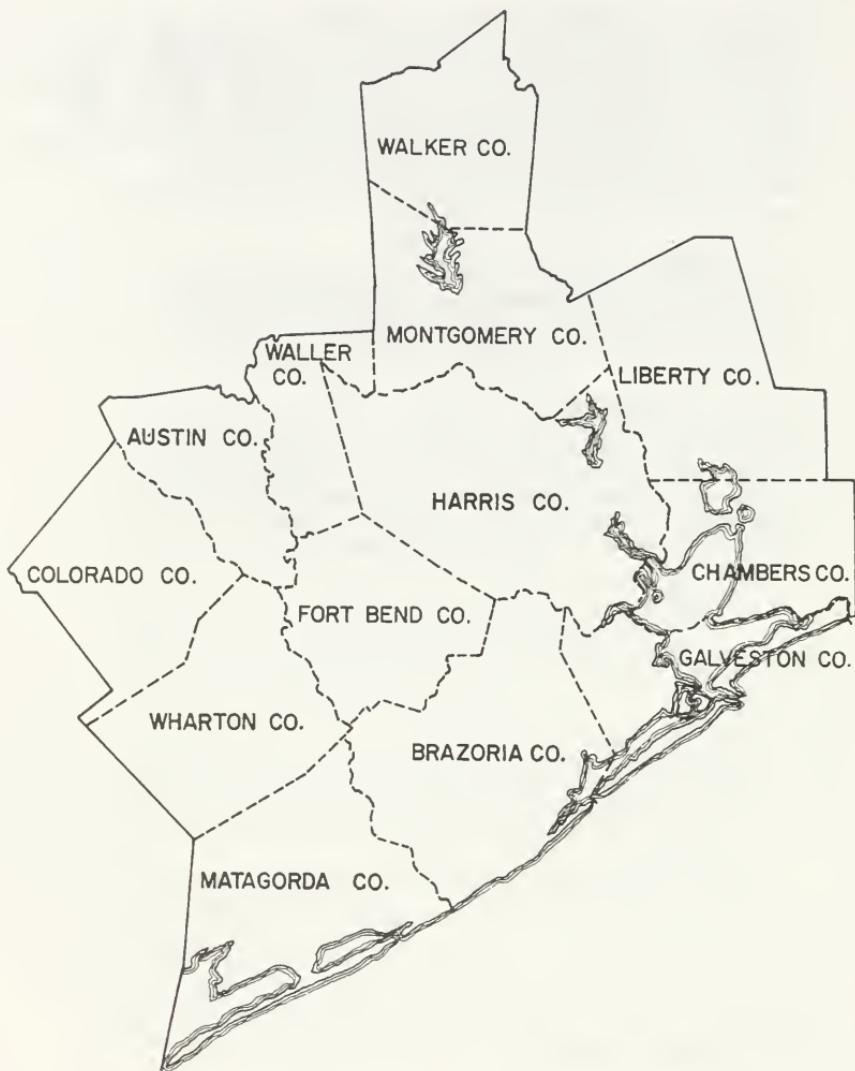
The Gulf Coast Economic Development District has been trying since 1989 to establish an EDA Revolving Loan Fund (RLF). This program would significantly enhance existing public fixed asset financing mechanisms because it can provide working capital. The RLF is also flexible to meet the specific credit needs of redevelopment areas. However, the "cash in hand" local matching fund requirement means that local governments and private lenders have to contribute scarce funds with no promise job creation benefit. This is especially true in a large region such as ours. We recommend that RLF recipients be allowed to document commitment of the matching funds, but not actually draw upon these commitments until loan proceeds are actually dispersed.

*2. Continue efforts to streamline the SBA 504 program.*

One of the biggest concerns we have heard about the SBA 504 program is the amount of time and paperwork required for processing and approval. The 504 program is not designed for high-risk loans, and potential clients have already received approval from a private lending institution. Continued emphasis on customer service and paperwork reduction could greatly enhance its viability, bringing job-creation benefits to the region.

*3. Continue using regional councils as resources.*

Economic development is a regional issue. The EDA and SBA have recognized this and have acted in partnership with regional councils of government for many years. I invite you to utilize regional councils as a resource to provide information and assistance to local decision-makers and citizens on economic development programs, and to provide you with feedback on your efforts. Please let me know if H-GAC can assist you in any way in the future. We look forward to the opportunity of working with you.



REMARKS BY  
CARLTON TOLBERT  
SENIOR VICE PRESIDENT  
AND REGIONAL MANAGER  
NATIONSBANK  
COMMUNITY INVESTMENT GROUP  
TO THE  
U.S. HOUSE OF REPRESENTATIVES  
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS  
SUBCOMMITTEE ON ECONOMIC GROWTH AND CREDIT FORMATION  
HEARING ON  
STRATEGIES FOR ECONOMIC GROWTH - THE GREATER HOUSTON REGION  
FEBRUARY 19, 1993

GOOD MORNING

MY NAME IS CARLTON TOLBERT. I AM THE REGIONAL COMMUNITY INVESTMENT MANAGER FOR NATIONSBANK IN TEXAS AND AM RESPONSIBLE FOR MY COMPANY'S COMMUNITY INVESTMENT INITIATIVES IN THIS STATE.

THE FOCUS OF OUR INITIATIVES IS ON INCREASING LOANS IN LOW AND MODERATE AREAS AND TO SMALL BUSINESSES. IT IS THESE MARKETS, I BELIEVE, THAT WILL BENEFIT MOST FROM THE ECONOMIC GROWTH AND CREDIT FORMATION SOLUTIONS WE ARE EXPLORING IN THIS SESSION.

CERTAINLY, LACK OF ADEQUATE CREDIT AVAILABILITY AND INVESTMENT CAPITAL HAVE HAD A NEGATIVE IMPACT ON GROWTH IN THESE SECTORS. TO REMEDY THAT, LENDING WILL BE A CONTRIBUTING FACTOR IN THE STRATEGIES FOR, AND ACCOMPLISHMENT OF, ECONOMIC GROWTH. NATIONSBANK REALIZES THIS REALITY AND IS COMMITTED TO USING ITS POWER TO MAKE A DIFFERENCE.

AS THE THIRD LARGEST BANKING COMPANY IN THE UNITED STATES, THE NATIONSBANK FRANCHISE COVERS 10 STATES PLUS THE DISTRICT OF COLUMBIA WITH 1900 BANKING CENTERS IN MORE THAN 650 COMMUNITIES. THIS TERRITORY SPANS FROM BALTIMORE, SOUTH TO

MIAMI AND WEST TO EL PASO. HERE IN TEXAS, WE HAVE 272 BANKING CENTERS, 69 OF WHICH ARE IN THE HOUSTON AREA.

THE TERRITORY WE COVER IS EXPANSIVE AND HAS GROWN RAPIDLY IN RECENT YEARS. WITH EXPANSION AND GROWTH HAVE COME LESSONS. ONE OF THESE LESSONS AND PROBABLY THE MOST FUNDAMENTAL IS THAT THE BANK PROSPERS ONLY WHEN OUR COMMUNITIES ARE ECONOMICALLY STRONG.

OUR CHAIRMAN, HUGH MCCOLL, HAS SAID THAT A BANK THAT LIMITS ECONOMIC OPPORTUNITY OF A CERTAIN NEIGHBORHOOD OR A CERTAIN CATEGORY OF BORROWER, ULTIMATELY LIMITS ITS OWN OPPORTUNITY. THAT BASIC PREMISE IS THE FOUNDATION OF THE NATIONSBANK PHILOSOPHY OF COMMUNITY INVESTMENT: IT'S NOT JUST THE RIGHT THING TO DO; IT IS GOOD BUSINESS.

PUTTING THIS PHILOSOPHY INTO PRACTICE, MR. MCCOLL MADE A SUBSTANTIAL PUBLIC COMMITMENT IN JANUARY 1992. HE COMMITTED OUR BANK TO MAKE AT LEAST \$10 BILLION IN COMMUNITY DEVELOPMENT LOANS DURING THE NEXT 10 YEARS. LET ME EMPHASIZE THE GOAL IS A FLOOR AND NOT A CEILING.

DURING THE FIRST YEAR, NATIONSBANK MADE \$2.2 BILLION IN COMMUNITY DEVELOPMENT LOANS. \$734 MILLION WAS IN TEXAS AND \$90.8 MILLION WAS IN HOUSTON.

ALTHOUGH WE ARE STILL COUNTING, I CAN SAY THAT IN 1993 WE MADE ANOTHER SIGNIFICANT AND CONTINUING EFFORT TOWARD OUR GOAL.

NATIONSBANK'S LENDING TO LOW AND MODERATE INCOME CONSUMERS AND TO SMALL BUSINESSES HAS INCREASED CONSIDERABLY IN RECENT YEARS. WE HAVE MADE SPECIFIC EFFORTS TO IMPROVE RESULTS IN THESE AREAS.

NATIONSBANK INITIATIVES FOR LOW AND MODERATE CONSUMERS INCLUDE:

- CREATING AFFORDABLE MORTGAGE PRODUCTS
- INSTITUTING MORE CREATIVE UNDERWRITING GUIDELINES AND CRITERIA
- DEVELOPING AND DELIVERING EDUCATIONAL CURRICULUM ON BANKING BASICS AND HOME BUYING
- LEADING THE WAY IN OPENING NEW BRANCHES IN PREVIOUSLY UNDERSERVED AREAS. I AM PROUD TO REPORT THAT TIME AND AGAIN, NATIONSBANK IS FIRST TO OPEN OFFICES IN LOW TO MODERATE AREAS AND BEFORE LONG, OUR COMPETITORS SOON FOLLOW.

SOME OF OUR INITIATIVES FOR SMALL BUSINESS INCLUDE:

- INVESTING IN LOAN FUNDS LIKE THE GREATER HOUSTON EQUITY FUND
- ESTABLISHING A SPECIALIZED SMALL BUSINESS BANKING UNIT TO HANDLE LOANS TO BUSINESSES WITH SALES OF \$4 MILLION OR LESS
- BECOMING A CERTIFIED SMALL BUSINESS ADMINISTRATION LENDER. WE ANTICIPATE BEING DESIGNATED TO BECOME A PREFERRED LENDER IN THE NEAR FUTURE
- DEVELOPING A SMALL BUSINESS EDUCATION CURRICULUM TO AID SMALL BUSINESS OWNERS IN MANAGING AND FINANCING THEIR BUSINESSES

ALSO, NATIONSBANK THROUGH ITS COMMUNITY DEVELOPMENT CORPORATION, HAS DEVELOPED OR REHABILITATED AFFORDABLE HOUSING COMPLEXES IN JOINT VENTURE WITH NONPROFITS. IN HOUSTON, FOR EXAMPLE, WE ARE REHABILITATING A 191 UNIT APARTMENT PROJECT IN THE THIRD WARD WITH THE NEIGHBORHOOD RECOVERY CDC.

THESE EFFORTS AND INITIATIVES ARE ALL A PART OF THE CONTINUING EFFORTS OF NATIONSBANK TO BE AN ACTIVE PARTICIPANT IN THE ECONOMIC GROWTH OF ALL PARTS OF OUR COMMUNITIES.

ALTHOUGH WE ARE PROUD OF THE ACCOMPLISHMENTS WE HAVE MADE, WE ARE REALISTIC AND RECOGNIZE THERE IS STILL MUCH TO BE DONE.

CLEARLY, NO ONE INDUSTRY - NO ONE FINANCIAL INSTITUTION - NO ONE GOVERNMENT AGENCY CAN DO IT ALONE. CERTAINLY, OUR EXPERIENCE HAS BEEN THAT THE GREATEST SUCCESSES HAVE COME THROUGH COOPERATIVE EFFORTS. IT IS PUBLIC/PRIVATE PARTNERSHIPS WHICH ARE KEY TO MEANINGFUL IMPACT.

THAT IS WHY I AM HAPPY TO REPRESENT NATIONSBANK AS A PART OF THIS DISCUSSION TO FIND SOLUTIONS AND IT IS WORTHWHILE THAT YOU ARE SOLICITING FEEDBACK FROM THIS COMMUNITY REGARDING FEDERAL ASSISTANCE AND PROGRAMS WITH THE AIM OF MAKING THEM MORE EFFECTIVE.

I WOULD LIKE TO MAKE THREE SPECIFIC OBSERVATIONS WHICH ARE KEY TO ADDRESSING THE ISSUE BEFORE US - INCREASING THE ECONOMIC PROSPERITY OF OUR NEIGHBORHOODS WHICH LIE IN THE SHADOWS OF PROGRESS.

**1. PROACTIVE LOCAL AGENCY MANAGEMENT:** HOUSTON'S SBA OFFICE HAS BEEN EXTREMELY PROACTIVE IN COMMUNICATING WITH FINANCIAL INSTITUTIONS AND THE SMALL BUSINESS COMMUNITY ABOUT SBA PROGRAMS AND REQUIREMENTS. THEY HAVE ALSO BEEN GOOD LISTENERS, AS WELL AS GREAT INNOVATORS.

PROGRAMS SUCH AS TEXCAL, THE LOAN EXPRESS PROGRAM, THE LOW LOAN DOCUMENTATION PROGRAM AND TIMELY TURNAROUND HAVE BENEFITED BOTH FINANCIAL INSTITUTIONS AND BORROWERS. THIS APPROACH HAS TAKEN A LOT OF THE MYSTERY AND POTENTIAL AGGRAVATION OUT OF THE PROCESS. CLEARLY, ENCOURAGING PROACTIVE LEADERSHIP WITH AUTONOMY AT THE LOCAL LEVEL IS CRITICAL.

**2. ADDITIONAL MICRO-LOAN FUNDS:** GREATER AVAILABILITY OF SBA MICRO LOAN FUNDS TO COMPLIMENT THE PRIVATE FINANCIAL COMMUNITY IN MEETING THE SMALL LOAN NEEDS OF SMALL BUSINESSES WOULD BE OF GREAT BENEFIT. THE CURRENT LIMITATION, WHICH I BELIEVE IS FOUR PER STATE, SEEMS INADEQUATE GIVEN THE SIZE AND SCOPE OF TEXAS. HOUSTON, FOR EXAMPLE, AS THE NATIONS FOURTH LARGEST CITY DOES NOT HAVE ONE.

**3. ADDITIONAL LONG-TERM FINANCING SOURCES FOR SMALL MULTIFAMILY REAL ESTATE PROJECTS:** ADDITIONAL AFFORDABLE MULTIFAMILY HOUSING IS A SIGNIFICANT NEED AND A KEY TO THE ECONOMIC DEVELOPMENT AND IMPROVEMENT IN THE QUALITY OF LIFE IN LOW AND MODERATE INCOME COMMUNITIES. YET, THERE ARE INADEQUATE SOURCES OF LONG-TERM FINANCING FOR THESE TYPES OF PROJECTS. BANKS ARE SHORTER TERM LENDERS BY VIRTUE OF THEIR OWN FUNDING SOURCES. CONSEQUENTLY,

WHEN BANKS MAKE CONSTRUCTION AND REHABILITATION LOANS ON MULTIFAMILY AND OTHER INVESTMENT REAL ESTATE, IT IS GENERALLY SHORT TERM.

A LARGE UNIVERSE OF POTENTIAL AND TRADITIONAL LONG TERM LENDERS THAT PROVIDE LONG-TERM FINANCING EXISTS FOR SUCH PROJECTS IN HIGHER INCOME AND ECONOMICALLY STRONGER AREAS. HOWEVER, GREAT UNCERTAINTY EXISTS WITH RESPECT TO THE REFINANCING OF SMALL MULTIFAMILY PROPERTIES IN THE COMMUNITIES THAT ARGUABLY NEED SUCH FINANCING THE MOST.

LONG-TERM LENDER ATTITUDES, PROPERTY VALUES AND THE UNDERLYING ECONOMICS OF THESE DEALS CONTRIBUTE TO THE DIFFICULTY.

AMONG POTENTIAL SOLUTIONS ARE: 1) PROVIDING ADDITIONAL POOLS OF CAPITAL THROUGH GOVERNMENT AGENCIES FOR THIS PURPOSE; AND 2) BROADENING THE SCOPE OF FINANCIAL INSTITUTIONS THAT ARE EXPECTED TO OPERATE UNDER AND HOPEFULLY ACT WITHIN THE SPIRIT OF THE COMMUNITY REINVESTMENT ACT.

NATIONSBANK IS SINCERE IN ITS DESIRE TO FIND SOLUTIONS AND TO MAKE A DIFFERENCE IN OUR COMMUNITIES. WE KNOW WE HAVE TO DO MORE AND WE ARE COMMITTED TO DO SO. OUR SINCERITY - OUR COMMITMENT IS MEASURED BY OUR RESULTS.

YOUR WILLINGNESS TO INVESTIGATE SOLUTIONS, I BELIEVE,  
REPRESENTS A SINCERE INTEREST AS WELL.

AS MENTIONED EARLIER, IT WILL TAKE THE EFFORTS OF MANY  
SEGMENTS OF OUR COMMUNITIES TO STIMULATE ECONOMIC GROWTH AND  
TO MEET THE CREDIT NEEDS OF OUR COMMUNITIES. NATIONSBANK IS  
COMMITTED TO BEING A PART OF THAT EFFORT, AND WE APPRECIATE  
YOUR INVITATION TO BE A PART OF THE DISCUSSION.

THANK YOU FOR YOUR ATTENTION. I WOULD BE HAPPY TO ANSWER  
ANY QUESTIONS.

Statement of

**Dr. Thomas R. De Gregori**  
Economist

Department of Economics

University of Houston

at the field hearing on

*Strategies for Economic Growth – The Greater Houston Region*

held by the

Subcommittee on Economic Growth & Credit Formation

Committee on Banking, Finance & Urban Affairs

U.S. House of Representatives

in Houston, Texas

Saturday, February 19, 1994

Honorable Paul E. Kanjorski, Chairman  
Subcommittee on Economic Growth and Credit Formation  
U. S. House of Representatives

Dear Congressman Kanjorski,

Thank you for requesting us to submit a proposal to testify before your subcommittee hearings on "Strategies for Economic Growth - the Greater Houston Region." We are definitely interested in participating. The following is a summary statement of the presentation that we wish to make:

There is a large and growing body of knowledge concerning the use of credit to very small entities - commonly termed "micro-enterprises" - as an effective means of creating employment and reducing poverty. Most of this knowledge and experience has taken place in developing countries but it does not lessen its relevance to poverty alleviation in the United States. Outside the community of development professionals, it is not generally recognized that much of this understanding was the result of research on projects funded by U.S. donor organizations both at their own initiative and as mandated by the Congress. In drawing upon this experience, care must be taken neither to romanticize the substantial achievement of "micro-enterprise" credit institutions in developing countries nor to attempt to replicate too closely these institutions in the United States rather than adapting their experience to our needs for poverty reduction. Several basic conditions of "micro-enterprise" lending have considerable potential for poverty reduction in the Houston region and elsewhere in the United States. First, they are largely institutions that are targeted to the very poorest and not credit granting establishments that include "micro-enterprises" in their loan portfolio. Secondly, they have an extraordinarily high rate of orderly and on-time repayment keeping them solvent for continued lending. Thirdly, the enterprises that they have funded have tended to fill an important economic niches that provide vital services to the local poor on an economically self-sustaining basis. This is true

almost by definition since being small means that they primarily if not exclusively serve the communities in which they operate. They aid in both providing opportunities for employment and in the provision of services to the poor. They have also made a contribution in providing added income to those otherwise employed whose earnings threatened to keep them in perpetual poverty. Fourthly, they have been of primary benefit to those economically marginalized members of a community for whom previous attempts to assist them have failed. And they are often people who are strongly motivated to achieve but have been previously denied the economic opportunity to do so. In other words, it has been a mechanism for reaching those people who have either been ignored or abandoned as lacking skills and being beyond the possibility of self-improvement even though their main deficiency maybe not having access to credit.

The Grameen Bank in Bangladesh is the "micro-enterprise" lending institution that is best known in the United States. In fact, this type of lending is becoming commonplace throughout the developing world, particularly in Africa. This achievement had to overcome a long standing but unfounded belief that small borrowers were a greater risk than those who were able to obtain larger loans. Careful global studies in the 1970s demonstrated the exact opposite that small borrowers had better payback records than larger ones. Even with this information, lenders continued to prefer a smaller number of larger loans to a much larger number of small loans. This necessitated the creation of special institutions to service micro-enterprise borrowers. These specialized institutions could also be and generally were structured to meet the unique needs of small borrowers.

The research carried out in 14 African countries as part of U.S. AID's Gemini project demonstrate the economic potential of micro-enterprises and small enterprises. It was found that "the productivity of small firms tends to exceed that of large firms." (Carl Liedholm, Professor of Economics, Michigan State University) The individual enterprises tend to remain small, but with a the continued entry of new micro-enterprise and small firms, this has become the most dynamic sector in many African economies. And they have important linkages to other

economic sectors providing indirect as well as direct benefit to the community.

It goes without saying that conditions in Africa and Asia are vastly different than those in Houston. However for the most needy populations, there are enough similarities that warrant a more careful and detailed inquiry (based on existing studies) of the successes of micro-enterprise lending in Africa and Asia directed towards gaining an understanding of the basis of this success. However limited this understanding might be in its usefulness to Houston or however greatly modified this knowledge would have to be adapted to Houston or elsewhere in the United States, it remains an experience that offers considerable potential for contributing to economic growth and poverty alleviation in Houston. Since this knowledge and experience of micro-enterprises was largely funded by United States taxpayers, it is only appropriate that they too should benefit from it particularly since gaining this benefit in no way detracts from its continuing usefulness for its original targeted beneficiaries.

Houston has more of the critical social infrastructure which would be necessary for implementation of a micro-enterprise or very small scale lending program. Most of the programs that have been effective worked through small self-help organizations, many of which were created for the purpose of the lending enterprise. They served the function of facilitating local savings as group members made extremely small weekly deposits even when they were not repaying a loan. The group assisted one another in finding and succeeding in very small entrepreneurial endeavors. They also served as regulators of individual behavior to an extent that would not be tolerated in the United States. However a cohesive support group could provide a moral authority that would facilitate successful economic activity in borrowing, effectively utilizing and in repayment.

For the targeted groups of the various poor, Houston has a longer and more established tradition of local community even though it is an otherwise rapidly growing city. Certainly for the minority communities, it is unique in having both African-American and Hispanic communities with traditions that date back over a century.

**ECONOMIC DEVELOPMENT COUNCIL OF GREATER HOUSTON  
IDEAS OF CRA REFORM**

*Jorge Colorado, Economic Development Council of Greater Houston  
Confederacion de Organizaciones Latinas*

**I. LENDING TEST EVALUATION**

A. CRA Bank examinations should zero in on actual bank's lending record to low/moderate incomes areas (LMI) in its service areas, including credit extended to minority-owned businesses and in particular, those in inner-city, "economic development zones". Favorable consideration should be given to a bank's active participation with credit enhancement programs such as Revolving Loan Funds, MESBIC, SBA 504 and 7(a), Houston Business Council's "Consortium Loan" and similar programs.

Emphasis needs to be placed on a Bank's actual performance and progress in the Lending Test, particularly those of Major Bank Holding Companies who historically have ignored or have not served Small/Minority Businesses.

Actual bank loan to deposit performance objectives (for large as well as small banks) need to reflect parity reflecting the deposit base derived from particular communities and LMI's, as well as public agencies' accounts and the loans and investments provided to these communities.

Although information on Minority Business loans is scant and not required by bank regulators, the existing data that is available reflects a neglect of minority business and inner-city loans, services and investments by major banks. Despite the current environment of record spreads or profit margins for banks, the lack of credit for SBE/MBEs remains very tight.

**SPECIFIC RECOMMENDATION:**

That real, measurable progress be made in community reinvestment policies by financial institutions through mechanisms, such as credit enhancement programs mentioned above, and utilizing their "Basket Loans" pool for good but marginal risk credits in targeted LMI areas. "Basket Loans" allows banks to ease up on extensive documentation and provides flexibility in relaxing stringent underwriting guidelines, such as appraisals, collateral documents, etc. Internal management incentives, using performance evaluations not just on profitability factors but also on loans, product sales to Minority/ Small Businesses in LMI areas. Internal bank management objectives and lending officer incentives needs to be implemented and promoted to increase loans to firms in targeted communities with measurable goals.

Targets and objectives can be established to result in real progress of expanding the banks' usage of existing credit-enhancement financing programs such as Revolving Loans, SBA 7(a), SBA 504, MESBIC, HBC Consortium Loans. These programs allow Banks to maintain soundness and prudent policies by enhance their collateral positions.

#### SERVICE TEST

Service test factors which considers the extent to which a bank makes available services/products to LMI areas, such as ATM's, branches and products reflect's a bank's commitment to these market segments and would further provide avenues for loans and other credit availability.

In Houston, it is estimated that over 40% of Hispanic households do not have adequate banking account relationships and given the growth of this population, it makes good business sense to expand services to this market segment.

#### INVESTMENT TEST

Bank investments in community and economic development activities should also be encouraged, particularly projects that serve to promote the economic environment housing and business credit availability. Direct investments in projects like MESBIC's, grassroot Community Development Corporations and Bank/Multi-Bank Community Development Corporations, and others should be considered for outstanding evaluations subsequent to favorable lending test factors.

The lack of major Bank sensitivity to inner-city, minority concerns historically is directly reflected in the absence of Minority Lending Officers, Managers and Loan Committee Members in these institutions. A strong, real and responsive Affirmative Action Plan needs to be implemented and enforced in local banks that would benefit both the banks and the communities that they serve.

#### BANK STRATEGIC BUSINESS PLAN OPTION:

Bank's genuine commitment in community reinvestment can be measured in their business plan goals and objectives regarding CRA activities. This avenue provides a favorable option for banks who have genuine interest in community revitalization and are willing to be measured on their business plan objectives, once approved by regulators and community groups. This option avoids costly data gathering overhaul and excess documentation requirements. This process should include strong, diverse community input.

**ECONOMIC DEVELOPMENT COUNCIL OF GREATER HOUSTON****PURPOSE of EDCGH:**

To reverse disinvestment in local communities by enhancing effective Community Reinvestment Act policies and programs of financial institutions and by expanding funding base of existing small business financing programs sensitive to community's needs. Also to strengthen Affirmative Action (EEOC) plans of financial institutions in recruiting more ethnic minorities in decision-making positions.

**GOALS:**

- 1. To strengthen the coalition of grass-roots community organization concerned with reversing disinvestment in local communities.
- 2. Provide community organizations and elected officials with better awareness of economic development programs, CRA and related issues.
- 3. Expand existing small business financing programs through increases in funding base/capital, enhanced collaboration of banks and enhanced Equity/Venture Capital financing project(s).
- 4. Work with monitors, regulatory agencies, financial institutions and community groups to assure effective implementation of CRA and affirmative action plans.
- 5. Advocate for effective affirmative action and procurement strategies and policies that reflect the diversity of the workforce and minority business community.

# S·E·A·R·C·H

SERVICE OF THE EMERGENCY AID RESOURCE CENTER FOR THE HOMELESS

Testimony for the Subcommittee on Economic Growth and Credit Formation

P.O. Box 7969  
Houston, Texas  
77270-7969  
(713) 739-7752  
Fax: (713) 739-9201

Submitted by Earl Hatcher, Executive Director S.E.A.R.C.H. Homeless Project  
prepared by Sandy Kesseler, Associate Director/Job Training Coordinator & Jody  
Finger, MSW Intern

Earl Hatcher  
Executive Director

Katerina M. Germanides  
President

Diane Peterson  
Executive Vice President

John S. Truhan  
Vice President

Charles Edward Boulware  
Secretary

Robert L. Field  
Treasurer

Susan R. Levy  
Past President

Shelly Cyrus  
President Emeritus

RESOURCE  
CENTER

JOB TRAINING

HOUSE OF  
TINY TREASURES

MOBILE  
OUTREACH

TRANSITIONAL  
HOUSING

The most common answer to the question "What would it take for you to get off the streets?" from participants in S.E.A.R.C.H.'s programs is A JOB. S.E.A.R.C.H. has operated a job training program funded by Houston Works since 1990. Though this program afforded participants the opportunity to obtain basic skills, remedial education, and a GED, this was not sufficient resources for the homeless to gain adequate employment. In response, S.E.A.R.C.H. implemented a job search/placement component to the education program. Due to current economic instability in Houston, labor intensive jobs are scarce. S.E.A.R.C.H. recently collaborated in an application to HUD where we asked for funding to have Houston named an innovative city. This means that we will be given the opportunity to pool our resources with other agencies working to help address the complex needs of the homeless. S.E.A.R.C.H. received 292,000 dollars from this award, one of the innovative ways that we plan to use the 292,000 dollars is to pay homeless/low-income residents living stipends in the amount of 400.00 dollars per month while they obtain on the job training from privately owned businesses. This training stipend will pay the participant for up to one year. At the end of the year the business that provided the training will have the opportunity to hire the participant. The last phase of S.E.A.R.C.H.'s plan is to enhance employment opportunities through income producing businesses within the organization.

Areas of interest range from construction and retail to a sheltered workshop. The ultimate goal is to help formally homeless/indigent people open small businesses that would employ the economically disadvantaged.

**HEIGHTS COMMUNITY DEVELOPMENT CORPORATION**  
*A Texas Non-Profit Corporation*

**P. O. Box 701098  
Houston, TX 77270**

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*José Villarreal, President  
802-1600*

February 19, 1994

Subcommittee on Economic Growth and Credit Formation  
Congress of the United States  
House of Representatives  
Washington, DC 20515-4318

Ladies and Gentleman:

As President of the Heights Community Development Corporation (HCDC), I want to express my appreciation to the Subcommittee for holding this hearing in Houston. HCDC is a nonprofit, community-based organization, and committed to the revitalization of our Heights neighborhood through economic and residential redevelopment. Our primary aim is to encourage neighborhood residents to invest in - and rebuild - our deteriorating neighborhood. We are currently dedicating our efforts to the construction of 8 new affordable homes at the corner of Herkimer and 12th Streets, which will be financed through a creative use of private and public funds.

As a community development corporation, we rely on a strategy of building partnerships between the neighborhood residents and business people, local government and private sector corporations (especially financial institutions). Institutions like the community development corporations are the best agents to devise neighborhood redevelopment plans because of our ability to represent the interest of all segments of the neighborhoods. HCDC relies on the cooperation of the private sector, both in the financing of its affordable homes program, but also in providing operational and in-kind support. For this reason, we applaud the changes proposed in the rules of the Community Reinvestment Act that move the enforcement from a paperwork exercise to one that is means tested.

We are concerned about one potential change that may prove a disincentive to lending institutions. They currently receive credit for compliance with CRA for their financial contributions to the operations of community development corporations. We agree that such financial contributions are no substitute for an ongoing lending program that reaches all levels of the community; they are, nevertheless, necessary for community-based organizations in a start-up mode. Start-up funds from the public sector are limited, and relying on private contributions from affected parties is a necessary strategy in the forming of partnerships. For this reason, we urge you to continue to fine-tune the regulations, to provide not only some credit to lending institutions who provide financial support to community-based organizations involved with neighborhood revitalization program, as well as continuing the move towards a CRA compliance rating that is performance-based on actual lending patterns. The provision of credit to all segments of our population, regardless of where they live, is a goal that must be reached.

Thank you for your time and, should you need additional information, I would look forward to hearing from you.

Sincerely,  
*José Villarreal*  
José Villarreal  
President, Board of Directors

1  
February 18, 1994

## PRESENTATION BY

RICHARD A. WILTZ, CHAIRMAN  
GULF COAST REGIONAL ECONOMIC DEVELOPMENT COORDINATION COMMITTEE  
P.O. BOX 27524  
HOUSTON, TEXAS  
(713) 270-6882  
FAX #: (713) 270-8735

PRESENTED TO: SUBCOMMITTEE ON ECONOMIC GROWTH AND CREDIT FORMATION  
CONGRESS OF THE UNITED STATES

February 19, 1994

I. COMMUNITY REINVESTMENT ACT REFORM

A. CRITICAL AREAS OF CONCERNS, ESPECIALLY FOR ETHNIC MINORITIES, ARE THE NEED FOR SPECIAL LOAN PRODUCTS SUCH AS:

1. Loan facilities for loans of \$25,000 and less:
  - a. with reasonable terms & interest rate;
  - b. reasonable credit criteria;
2. Loans for small contractors;
3. Financial assistance for contract bonding;

B. OTHER CRITICAL AREAS INCLUDES:

1. The need for capital credit enhancements for existing public loan programs:
  - a. HBC/Business Consortium Program;
  - b. Houston SBDC/RLF;
  - c. CEDHC/RLF;
2. The need for equity financing program:
  - a. with reasonable rate of returns;  
(terms & interest rate)
  - b. address the need of all small businesses (not restrictive to size and type);
  - c. reasonable credit criteria for investment purposes;
3. The need for increased participation in public loan programs:

While we have seen a major increase in bank participation in SBA 7a loan programs, there have not been any significant increase in the following local programs:

- a. HBC/Business Consortium Program;
- b. Houston SBDC/RLF;  
[HUD Community Development Block Grant Business Loan Program]
- c. CEDHC/RLF;  
[HUD Community Development Block Grant Business Loan Program]

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d. SBA 504 Loan Program;

In addition, we are seeing a number of bank holding companies establishing branch banks in minority neighborhoods, we hope that this is a "two way street". By "two way street", we mean that the branch banks are not only taking in deposits but also making significant business loans to the local minority residents and minority businesses.

We believe that the loan to deposit ratio in any given community should be at least equal to that of the subject bank average loan to deposit ratio.

We recently learned from OCC officials that serious consideration is being made for the following:

- A. Reconsidering CRA credit rating levels for lenders who's primary efforts to meet CRA requirements is through token "give-aways" to minority community business groups and organizations when more focus should be making business loans to those entities;
- B. Establishing provisions whereby lenders are required to collect data and information relative to loans made to various ethnic groups in addition to minority neighborhoods (to ethnic minorities);

We are concerned that very few banks are initiating the already approved "Basket Loan Provision" which allows lenders to set aside up to 20 percent of loans for a special lending pools which will not be reviewed by the bank examiners.

We further believe that if banks are serious about doing business with the ethnic minority communities and businesses they should consider the following:

- A. Hiring more ethnic minorities as commercial loan officers; (especially in those ethnic minority communities where they have established branch banks)
- B. Hire and promote more ethnic minorities as senior bank officers and officials;
- C. Establish and enforce an affirmative action program where banks would be required to set a percentage a procurement goal (33%) for ethnic minority businesses;

We have recently learned that the banks are being given an option, "the CRA Plan Options", as an alternate to the standard CRA requirements. The alternate options allows banks to submit plans and goals which they feel comfortable with. Of concerns to us, despite the supposed requirements for public comments, the options may give banks a way out in meeting certain CRA requirements.

We further recommend the following:

- A. An annual public hearing should be held on each local bank performances and that "more than adequate" public notices should be given to the public hearings;

February 18, 1994

B. The Banks should make their documented CRA plans and performance review (by Federal Regulators) more easily available to the public;

II. EXISTING AND NEW FEDERAL INITIATIVES:

A. U.S. SMALL BUSINESS ADMINISTRATION (SBA)

1. We are extremely proud of the Houston SBA District Office performance during recent years. However, we are concerned about the shortage of loan officers and support staff. We feel if additional staff is added, the Houston District Office performance can be greatly enhanced;
2. We have a concern with the approval process for SBA 8a Certification. We believe that if the District office was given the authority (along with additional staff support staff), they could improve (speed up) the approval process;

B. FARMERS HOME ADMINISTRATION (FmHA)

1. The District Offices in this region is very active. However their efforts can be enhanced with additional staff support;
2. There is need to improve the approval process for the Business & Industrial Loan Program by giving loan approval authority to the District Offices rather than having to secure FmHA/Washington's approval on every loan submitted regardless of loan size;

C. U.S. DEPARTMENT OF COMMERCE/ECONOMIC DEVELOPMENT ADMINISTRATION (EDA)

1. We have a great Regional Office staff in Austin, Texas. They have always been supportive in addressing local community needs;
2. The Regional Office can be more effective if loan and grant approval authority is given to the Regional Offices rather than every grant or loan requiring approval from EDA's Washington Office;
3. There is a need to restore funding for EDA's guaranteed business loan program to address loan needs for projects size beyond SBA capabilities;
4. There is a need to increase funding for the following EDA programs:
  - a. Public Works (rural and urban);
  - b. Technical Assistance Programs, especially for small business development;

February 18, 1994

c. Revolving Loan Fund Programs:

.Allow more flexible requirements for utilization of matching sources;

D. EMPOWERMENT ZONES(EZ) & ENTERPRISE COMMUNITIES(EC)

1. Houston is a major city and should be given special consideration for designation as an EZ;
2. Houston has all the ingredients in terms of expertise and local economic development entities who are committed and have demonstrated their ability to work together for a common cause;

E. U.S. DEPARTMENT OF COMMERCE/MINORITY BUSINESS DEVELOPMENT AGENCY/ MINORITY BUSINESS DEVELOPMENT CENTER (MBDA/MBDC)

1. Grant Thornton Company is the local operator of the MBDC and is doing an excellent job even though they are severely under funded, especially in comparison to other similar federally programs in the Houston area;
2. There is a need to provide additional funding to this "hands-on" technical assistance program;

We thank you for your time and consideration.

wiltz

GULF COAST STATE PLANNING REGION REGIONAL  
ECONOMIC DEVELOPMENT COORDINATION COMMITTEE (REDCG)

The Regional Economic Development Coordination Committee was formed in April 1979, through the efforts of several public economic development entities.

The committee primarily consists of the following groups:

LOCAL ECONOMIC DEVELOPMENT ORGANIZATIONS

Houston Economic Development Council  
Houston Citizen Chamber of Commerce  
Houston Hispanic Chamber of Commerce

Harris County Community Development Agency

City of Houston Economic Development Division

City of Galveston/City Manager's Office

Farmers Home Administration/Huntsville District Office

U.S. Small Business Administration/Houston District Office

Houston Business Council

MESBIC Financial Corporation of Houston

Grant Thornton Company/Houston Minority Business Development Center

Houston-Galveston Area Council/Economic Development Division  
(Houston-Galveston Area Local Development Corporation)

Houston Federal executive Board/Minority Business Opportunity Committee

The Corporation for Economic Development of Harris County

Houston Small Business Development Corporation

Prairie View A&M University/Economic Development Technical Assistance Center

Texas Southern University/Economic Development Center

Gulf Coast Small Business Development Center

The primary functions of the committee are:

1. To promote coordination among agencies and institutions (primarily public funded entities) involved in economic development;
2. To provide a forum where the members can:
  - a. describe individual programmatic functions;
  - b. announce new program development and changes;
  - c. address individual and mutually shared problems relating to the area of economic development;
  - d. address the problem of duplicated efforts, and
3. Sponsor and cosponsor regional and sub-regional economic development seminars and workshops.

October 6, 1993

REGIONAL ECONOMIC DEVELOPMENT COORDINATION COMMITTEE  
(REDCC)

Saadat Syal, Vice President  
Houston Economic Development Council  
1100 Milam, 24th Floor  
Houston, Texas 77002  
(713) 651-7219

Richard A. Wiltz, REDCC Chairman  
P.O. Box 27524  
Houston, Texas 77227  
(713) 270-6882

Bill Colfer, District Loan Officer  
Economic Development  
U.S. Small Business Administration  
Houston District Office  
9301 Southwest Freeway, Suite  
Houston, Texas 77074  
(713) 773-6500

Milton Wilson, District Director  
U.S. Small Business Administration  
Houston District Office  
9301 Southwest Freeway, Suite  
Houston, Texas 77074  
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Houston Hispanic Chamber  
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712 Main, Suite 1820  
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(713) 223-2121

Bruce Austin, Executive Director  
Harris County Community  
Development Agency  
3100 Timmons Lane, Suite 200  
Houston, Texas 77027  
(713) 626-5651

Linda Brakebill  
Acting District Director  
Farmers Home Administration  
1300 11th Street, Suite 315  
Huntsville, Texas 77340-4227  
(409) 291-1901

Ella Nunn, Director  
Texas Southern University  
Economic Development Center  
3201 Wheeler Avenue  
Houston, Texas 77004  
(713) 527-7785

October 6, 1993

Valerie Boudreaux, Manager  
Management & Technical Assistance  
Houston Small Business Development  
Corporation  
5330 Griggs  
Houston, Texas 77021  
(713) 845-2420

Al Calloway  
City Councilman  
City of Houston  
P.O. Box 1562  
Houston, Texas 77251  
(713) 247-2001

Richard Huebner, Director  
Houston Business Council  
6161 Savoy, Suite 1030  
Houston, Texas 77036  
(713) 974-0286

Art Moreno, President  
MESBIC Financial Corporation  
of Houston  
401 Studewood, Suite 200  
Houston, Texas 77007  
(713) 869-8595

Douglas Matthews, City Manager  
City of Galveston  
P.O. Box 779  
Galveston, Texas 77553  
(409) 766-2150

James J. Smith, Project Director  
Grant Thornton Company  
Houston Minority Business  
Development Center  
1200 Smith Street, Suite 2870  
Houston, Texas 77002  
(713) 650-3831

Marlon Mitchell, Executive Director  
Houston Small Business Development  
Corporation  
5330 Griggs  
Houston, Texas 77021  
(713) 845-2404

Amos Brown, Executive Director  
The Corporation for Economic  
Development of Harris Co., Inc.  
3100 Timmons Lane, Suite 222  
Houston, Texas 77027  
(713) 840-8804

(OVER)

Betsy Gatewood, Regional Director  
Small Business Development Center  
1100 Louisiana, Suite 500  
Houston, Texas 77002  
(713) 752-8400

Rudy Rasmus  
Houston Citizen Chamber of Commerce  
2808 Wheeler Avenue  
Houston, Texas 77004  
(713) 522-9745

REDCC  
October 6, 1993

## GULF COAST REGIONAL ECONOMIC DEVELOPMENT COORDINATION COMMITTEE

## PUBLIC ECONOMIC DEVELOPMENT TOOLS &amp; RESOURCES

## ALTERNATIVE PUBLIC FINANCING RESOURCES

<u>FUNDING SOURCES</u>	<u>USE OF FUND\$</u>	<u>MINIMUM AMOUNTS</u>	<u>MAXIMUM AMOUNTS</u>	<u>TERMS OF LOANS (YEARS)</u>	<u>INTEREST RATES (%)</u>	<u>TYPE OF LOAN</u>	<u>COMMENTS</u>
1. SBA 7a	Land Bldg. Equip. W/C	No Minimal Quoted	\$750,000 (SBA guarantee W/C: 5-7;	Land & Bldg.: 25; Equip.: 10-12;	P+1.5 (90%)	G	Private lending participation is required; may include some debt refinancing; other requirements are applied.
2. SBA 504 (LDC)	Land Bldg. Equip.	\$125,000 (LDC:\$50,000)	LDC: \$750,000 \$1,000,000 under certain conditions	Land & Bldg.: 20; Equip.: 10	40%	P	Private lending participation is required; may not include debt refinancing or working capital; 1 new job/\$35,000 loan by LDC must be created &/or saved;
							Private Lender: P+1.5; minimal 10 yrs.; 50% of project cost;
							LDC: 1.5% above T-Bond and 10 y maturity; fixed rates;
							Other restrictions and requirements are applied;
3. PmHA B&I	Land Bldg. Equip. W/C	\$750,000	\$10,000,000	Land & Bldg.: 30; Equip.: 15; W/C: 7;	P+1.5 (50%)	G	Private Lending participation is required; may include some debt refinancing; Rural Areas only; other restrictions and requirements are applied;
4. TCP	Land Bldg. Equip. W/C	\$100,000 (TCP:\$50,000)	TCP: \$500,000 Overall Project cost may exceed \$1,000,000	Land & Bldg.: 30; Equip.: 15; W/C: 7;	W.Y. Prime (fixed)	P	Private lending participation is required; does not include debt refinancing; All B-GAC 13 counties except: City of Galveston; Texas City; Port Bend County; Harris County; other restrictions are applied; 1 job/\$25,000 (TCP loaned) must be created;
5(a) GSMB	Equip. W/C	\$25,000	\$100,000	Equip.: 15; W/C: 5-7;	Fixed (Wall St. Prime)	(75%)	Does not include debt refinancing; B-GAC 13 counties except: City of Galveston; Texas City; Port Bend County; Harris County; other restrictions are applied; 1 job/\$25,000 (TCP loaned) must be created;

(OVER)

## GULF COAST REGIONAL ECONOMIC DEVELOPMENT COORDINATION COMMITTEE

PUBLIC ECONOMIC DEVELOPMENT TOOLS & RESOURCESALTERNATIVE PUBLIC FINANCING RESOURCES

<u>FUNDING SOURCES</u>	<u>OSB OP FUND</u>	<u>MINIMUM AMOUNTS</u>	<u>MAXIMUM AMOUNTS</u>	<u>TERMS OF LOANS</u>	<u>INTEREST RATES</u>	<u>TYPE OF LOAN</u>	<u>COMMENTS</u>
5 (b) TCP/ REDF	Land & Bldg.	\$50,000	\$800,000	Minimal lease 5 yrs. Maximum lease 30 yrs.	N/A	(100%) loan	Does not include debt refinancing; B-GAC 13 counties except City of Galveston; Texas City; Fort Bend County; Harris County other restrictions are applied; 1 job/\$25,000 (TCP loaned) must be created;
							Grant to local government to acquire and construct facility lease to private sector businesses;
6. Harris County RLF	Land Bldg. Equip. W/C	\$50,000 (RLF: \$25,000)	No Maximum Quoted	Land & Bldg.: 25; 7% Equip.: 15; W/C: 5-7;	Fixed	P (50%)	No debt refinancing; Areas include: Harris County except Houston; Pasadena; Baytown; includes: Missouri City; Stafford; Waller; 1 job/\$15,000 (RLF loaned) must be created;
7. Houston RLF	Land Bldg. Equip.	\$50,000 (RLF: \$25,000)	RLF: \$250,000	Land & Bldg.: 25; 7% Equip.: 15; W/C: 5-7;	Fixed	P (50%)	No debt refinancing; Houston target areas only; 1 job/\$15,000 (RLF loaned) must be created;
8. MESSBIC	Equip. W/C	\$25,000	\$250,000	4-10 yrs.	Variable near prime	D (100%)	All B-GAC 13 counties; Ethnic Minorities; other requirements and restrictions are applied
9. IRB	Land Bldg. Equip.	\$1,000,000	\$10,000,000	up to 40 yrs	8-15% fixed & variable	P (100%)	Private lenders participation; required purchasers of bonds; manufacturers only; no debt refinancing; other restrictions and requirements are applied;
10. BCF	W/C	\$25,000	\$500,000	4 yrs.	10% of prime	D (100%)	Private lender participation is required; no debt refinancing & start-up capital; ethnic minorities; other requirements and restrictions are applied;

October 6, 1993

GULF COAST REGIONAL ECONOMIC DEVELOPMENT COORDINATION COMMITTEEPUBLIC ECONOMIC DEVELOPMENT TOOLS & RESOURCESALTERNATIVE PUBLIC FINANCING RESOURCES

As noted in the attached, there are numerous public resources available in the Gulf Coast (H-GAC) planning region. Each of the resources noted in the attached have different amounts, terms, usages, conditions, and interest rates.

The following is a listing of who/what Agency or Institutions to call regarding these loan resources:

SBA 7A GUARANTEE LOAN PROGRAM

Finance Division  
U.S. Small Business Administration  
Houston District Office  
9301 Southwest Freeway, Suite 550  
Houston, Texas 77074  
(713) 773-6500

SBA 504 (LDC) LOAN PROGRAM

Jeff Sjostrom, Economic Development Planner  
Houston-Galveston Area Local Development Corporation  
3555 Timmons Lane, Suite 500  
Houston, Texas 77027-2777  
or

P.O. Box 22777  
Houston, Texas 77227  
(713) 627-3200

FARMERS HOME ADMINISTRATION BUSINESS & INDUSTRIAL LOAN PROGRAM (FmHA) & COMMUNITY FACILITY LOAN PROGRAM

Linda Brakebill  
Acting District Director  
Farmers Home Administration  
1300 11th Street, Suite 315  
Huntsville, Texas 77340-4227  
(409) 291-1901

TEXAS CAPITAL FUND PROGRAMS (TCF)

(TCF is operated by the Texas Department of Commerce)

Governor's Special Assistance Fund for Small and Minority Businesses (GSMB)Texas Capital Fund/Loan Program (TCF/LP)Texas Capital Fund/Real Estate Development Program (TCF REDP)

Armando Ruiz  
Texas Department of Commerce  
P.O. Box 12728  
Capitol Station  
Austin, Texas 78711  
(512) 472-5059

(OVER)

October 6, 1993

or

Richard A. Wiltz, REDCC Chairman  
P.O. Box 27524  
Houston, Texas 77227  
(713) 270-6882

HARRIS COUNTY REVOLVING LOAN FUND PROGRAM (RLF)  
Amos Brown, Executive Director  
The Corporation for Economic Development of Harris County, Inc.  
310 Timmons Lane, Suite 222  
Houston, Texas 77027  
(713-) 840-8804

HOUSTON REVOLVING LOAN FUND PROGRAM  
Marlon Mitchell, Executive Director  
Houston Small Business Development Corporation  
5330 Griggs  
Houston, Texas 77021  
(713) 845-2404

MINORITY ENTERPRISE SMALL BUSINESS INVESTMENT COMPANY (MESBIC)  
Art Moreno, President  
MESBIC Financial Corporation of Houston  
401 Studewood, Suite 200  
Houston, Texas 77007  
(713) 869-8595

INDUSTRIAL REVENUE BONDS (IRB)  
Richard A. Wiltz, REDCC Chairman  
P.O. Box 27524  
Houston, Texas 77227  
(713) 270-6882

TDOC RURAL ECONOMIC DEVELOPMENT PROGRAM  
Armando Ruiz, Manager  
Business Finance Services Texas Department of Commerce (TDOC)  
P.O. Box 12728 Capital Station  
Austin, Texas 78711  
(512) 472-5059

or

Richard A. Wiltz, REDCC Chairman  
P.O. Box 27524  
Houston, Texas 77227  
(713) 270-6882

BUSINESS CONSORTIUM FUND PROGRAM (BCF)  
Richard Huebner, Director  
Houston Business Council  
6161 Savoy, Suite 1030  
Houston, Texas 77036  
(713) 974-0286

October 6, 1993

GULF COAST REGIONAL ECONOMIC DEVELOPMENT COORDINATION COMMITTEEPUBLIC ECONOMIC DEVELOPMENT TOOLS & RESOURCESTECHNICAL ASSISTANCE RESOURCESI. TEXAS DEPARTMENT OF COMMERCE

- A. INDUSTRIAL PLANNING & PROSPECTING
- B. INTERNATIONAL TRADE
- C. COMMUNITY PROFILES & DATA
- D. RURAL LOAN FUND PROGRAM
- E. TEXAS CAPITAL FUND PROGRAMS
- F. FINANCIAL PACKAGING FOR BUSINESSES AND INDUSTRIES
- G. OTHERS

FOR FURTHER INFORMATION, CONTACT:

Armando Ruiz, Manager of Business Finance  
Texas Department of Commerce  
(512) 472-5059  
or  
Richard A. Wiltz, REDCC  
(713) 270-6882

II. GRANT THORNTON COMPANY/HOUSTON MINORITY BUSINESS DEVELOPMENT CENTER  
(funded by U.S. Department of Commerce, Minority Business Development Agency)

- A. BUSINESS PLANNING
- B. FINANCIAL LOAN PACKAGING C. BUSINESS OPERATION
- D. PROCUREMENT ASSISTANCE

NOTES: 1. PROGRAM PROVIDES "HANDS-ON" ASSISTANCE \*  
2. PROGRAM PROVIDES ASSISTANCE TO ETHNIC MINORITIES ONLY

FOR FURTHER INFORMATION, CONTACT:

James J. Smith, Project Director  
Grant Thornton Company/Houston Minority Business Development Center  
1200 Smith Street  
Houston, Texas 77002  
(713) 650-3831

\* Cost of service is 80% subsidized

IV. HOUSTON SMALL BUSINESS DEVELOPMENT CORPORATION

- A. BUSINESS PLANNING
- B. FINANCIAL LOAN PACKAGING
- C. SEMINARS
- D. GENERAL COUNSELING

NOTES: 1. PROGRAM PROVIDES FREE "HANDS-ON" ASSISTANCE  
2. ASSISTANCE RESTRICTED TO PROJECTS LOCATED, OR TO BE LOCATED,  
IN THE CITY OF HOUSTON'S COMMUNITY DEVELOPMENT TARGET AREAS.

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FOR FURTHER INFORMATION, CONTACT:  
Valerie Boudreaux, Manager  
Management & Technical Assistance  
Houston Small Business Development Corporation  
5330 Griggs  
Houston, Texas 77021  
(713) 845-2420

V. TEXAS SOUTHERN UNIVERSITY/ECONOMIC DEVELOPMENT CENTER  
(Funded by U.S. Housing & Urban Development)

PROVIDES GENERAL BUSINESS ASSISTANCE AND ECONOMIC DEVELOPMENT ASSISTANCE

FOR FURTHER INFORMATION, CONTACT:  
Ella Nunn, Director  
Texas Southern University  
Economic Development Center  
3201 Wheeler Ave.  
Houston, Texas 77004  
(713) 527-7785

VI. SMALL BUSINESS DEVELOPMENT CENTER PROGRAM/UNIVERSITY OF HOUSTON  
(Funded by U.S. Small Business Administration)

- A. COUNSELING
- B. TRAINING PROGRAMS
- C. PRODUCT DEVELOPMENT ASSISTANCE

FOR FURTHER INFORMATION, CONTACT:  
Betsy Gatewood, Regional Director  
Small Business Development Center  
1100 Louisiana, Suite 500  
Houston, Texas 77002  
(713) 752-8400

Please contact Richard A. Wiltz, REDCC Chairman, at (713) 270-6882, regarding  
regarding these and other Technical Assistance Resources

October 6, 1993

REGIONAL ECONOMIC DEVELOPMENT COORDINATION COMMITTEE  
(REDCC)PUBLIC ECONOMIC DEVELOPMENT TOOLS & RESOURCES INFRASTRUCTURE SUPPORT PROGRAMSI. ECONOMIC DEVELOPMENT ADMINISTRATION (EDA) PUBLIC WORKS GRANT PROGRAM:

- A. Eligible areas are counties which have been designated as Redevelopment Areas by EDA;
- B. Eligible applicants are counties, cities, and public or private non-profit organizations;
- C. Grant size ranges from \$150,000.00 to \$2,000,000.00, averaging \$575,000.00 per project;
- D. 50% local match, 40% if located in an Economic Development District;
- E. Match may be provided by: CDBG grants; state grant programs; bank loans; bond sale; private funds. Commitments for matching funds must be firm;
- F. Eligible projects: utility improvements and expansions; roads, streets, and bridges; and other physical barriers to facilitating a business development project;
- G. Project must create at least 1 job per \$5,000.00 expenditure of EDA's public work funds;
- H. Project must have private sector commitments to locate in subject area where improvements are being made and for job creation;

II. FARMERS HOME ADMINISTRATION (FmHA) COMMUNITY FACILITY LOAN PROGRAM:

- A. Eligible areas are rural communities as may be approved by FmHA, primarily non-urban areas and communities with less than 20,000 population;
- B. Eligible applicants are counties, cities, and public or private non-profit organizations;
- C. Historically, loans have been made for projects up to \$4,800,00.00, averaging \$300,000 per project;
- D. 100% financing at a very low interest rate (6.75%-8.5%) for up to a 40 year term;
- E. Eligible projects: utility improvements and expansions; roads, streets, and bridges; and other physical barriers to facilitating a business development project; Projects have also included public facilities such as city halls, fire station, etc.;

Projects which involve infrastructure support for business development must include private sector commitments to locate at site where improvements are being made and for job creation;

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III. TEXAS CAPITAL FUND PROGRAM (COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) PROGRAM):

- A. Eligible areas exclude: Harris County; Texas City; City of Galveston;
- B. Eligible applicants are county and city governments;
- C. Grant size is up to \$800,000; match will be required;
- D. Eligible projects: utility improvements and expansions; roads, streets, and bridges; and other physical barriers to facilitating a business development project;
- E. Project must create at least 1 job per \$25,000 expenditure of CDBG funds;
- F. Project must have private sector commitments to locate in subject area where improvements are being made and for job creation;

NOTES: 1. ALL THREE OF THE ABOVE MENTIONED PROGRAMS MAY BE USED IN COMBINATIONS FOR A SINGLE PROJECT COST.

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THE SBA 504 LOAN CERTIFIED DEVELOPMENT CORPORATION (CDC) PROGRAM

CDCs are profit or non-profit corporations licensed by the U.S. Small Business Administration.

The CDC will make long-term, moderate interest loans to eligible small businesses for purchases of land, buildings, and machinery and equipment only. CDC cannot make working capital or inventory loans. Pure equipment loans cannot be considered unless the Small Business Concern(SBC) already owns or buying land and building.

ELIGIBLE PROJECTS

Industrial and commercial businesses with a total net worth less than \$6 million and profits after taxes of less than \$2 million are qualified to apply for CDC loans. Non-profit businesses, media (such as radio, television, newspaper, magazines), financial institutions, real estate companies, developer/landlord projects are not eligible. Refinance existing debt is generally not eligible. Other restrictions such as farm loans will not be made.

Total project cost should be at least \$125,000 and all projects must involve purchase of a fixed asset. The CDC portion of the loan may not exceed \$750,000. Project cost in excess of \$4,000,000 have been funded with CDC participation.

Job Creation Requirements

At least 1 new job must be created for every \$35,000 loaned with CDC financing. Job saved are also considered (when adequately documented).

LOAN STRUCTURE

An CDC small business loan combines financing from three sources: a private lender loans 50% of the total project cost; CDC loans up to 40%; the applicant makes a down payment of at least 10%. A CDC loan might be structured as follows:

Private Lender	50%	\$ 62,500	\$ 937,500
CDC	40%	50,000	750,000
Small Business	10%	12,500	187,500
Totals	100%	\$125,000	\$1,875,000

The maximum SBA participation amount can be increased from \$750,000 to \$1 million if the project must satisfy one or more of the following SBA Policy Goals:

- I. BUSINESS DISTRICT REVITALIZATION:
- II. EXPANSION OF EXPORTS:
- III. EXPANSION OF MINORITY BUSINESS DEVELOPMENT:
- IV. RURAL DEVELOPMENT:
- V. ENHANCED ECONOMIC DEVELOPMENT COMPETITION:
- VI. CHANGES NECESSITATED BY FEDERAL BUDGET CUTBACKS:
- VII. BUSINESS RESTRUCTURING ARISING FROM FEDERALLY MANDATED STANDARDS OR POLICIES:

LDC Terms And Interest Rate

CDC loans are made for 10 and 20 years, depending on the life of the assets to be financed. The interest rate is fixed for the term of the loan. The (OVER)

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rate is approximately .92 - 1.03% above the U.S. Treasury Bond rate.

Private Lender Term And Interest Rate

Private lenders participating in CDC loans must offer a term of at least 10 years (note) on their portion of the loan. However, there are no restriction on interest rates the private lender charges except that the rates be legal and reasonable. Private lending participation has ranged from prime (fixed) to plus 1.5(float).

The participating lender will have a first mortgage on 100% of the assets financed by the loan. The CDC/U.S. Small Business Administration loan will take a second lien position behind the private lender.

DEPOSIT & PROCESSING FEES

The CDC charges a total of 1 1/2 % of the Net Debenture loan (LDC loan) for application/processing fee.

The CDC collects an up front Deposit Fee on SBA 504 Loans of 1% of the CDC loan (Net Debenture) or \$2,500 (whichever is the less) at the time the subject application is submitted. If approved, the deposit fee is deducted from the legal fees &/or processing fee. If the CDC or SBA declines the loan, the deposit fee shall be refunded. If the applicant (SBC) withdraws its loan application or does not follow through on the required submission at any time before SBA issues the debenture authorization, the CDC may deduct its reasonable and necessary cost incurred.

CDC servicing fee (monthly)	1% per year on declining balance of CDC loan
Colson Services Corporation servicing fee (monthly)	1/10% per year on declining balance of CDC loan
Reserve account fee (one-time/non-refundable)	1/2% of CDC Loan
Funding fee (one-time)	1/4% of CDC Loan
Underwriting fee (one-time)	5/8% of CDC Loan

All fees are added into the CDC portion of the loan and are paid out of monthly payments.

Out-of-pocket cost to small business:

- a. Title search fees, mortgage/lien recording fees, small business attorneys' fees, finders' fees, incorporation fees, commitment fees;
- b. Any fees associated with private lender's portion of loan; Businesses interested in applying for loans should contact the LDC for more information about the loan program.

FOR MORE INFORMATION CONTACT: RICHARD A. WILTZ

R. A. WILTZ & ASSOCIATES  
BUSINESS & ECONOMIC DEVELOPMENT FINANCING  
9000 WEST BELLEFORT, SUITE 570  
HOUSTON, TEXAS 77031  
(713) 270-6882; FAX #: 270-8735

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## B U L L E T I N

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9000 WEST BELLFORT, SUITE 570  
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(713) 270-6882  
FAX #: 270-8735

R. - A. WILTZ & ASSOCIATES SPECIALIZE IN ACCESSING PUBLIC LOAN PROGRAMS AND COMBINATION LOANS UTILIZING THE FOLLOWING RESOURCES:

- \* SBA 7a Loans;
- \* SBA 504 Loans;
- \* Texas Capital Fund Loan Programs (TEXCAP);
- \* Farmers Home Administration (FmHA) Business & Industrial Loan Programs;
- \* Housing & Urban Development (HUD) /Community Development Block Grant CDBG) Revolving Loan Fund (RLF) Programs;
- \* Private Lenders (Banks, Savings & Loans);
- \* Others;

SPECIFIC AREAS AS SERVICES INCLUDE:

- \* REVIEW & ANALYSIS OF BUSINESS;
- \* REVIEW & ANALYSIS OF BUSINESS FINANCIAL STATEMENTS;
- \* REVIEW & ANALYSIS OF PROPOSED FINANCING NEEDS;
- \* LOAN DEVELOPMENT & STRUCTURING;
- \* LOAN PLACEMENT WITH PUBLIC & PRIVATE LENDERS;  
(INCLUDING CRITICAL NEGOTIATIONS)
- \* LOAN PACKAGING SERVICES (PROVIDED BY ASSOCIATES);
- \* PRESENTATION OF FINANCIAL PACKAGES TO LENDERS;
- \* ASSIST IN LOAN CLOSING ACTIVITIES;

FOR FURTHER INFORMATION, CONTACT: Richard A. Wiltz  
(713) 270-6882



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